
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED December 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File number 000-25001

FedNat Holding Company

(Exact name of registrant as specified in its charter)

Florida

(State or Other Jurisdiction of Incorporation or Organization)

65-0248866

(IRS Employer Identification Number)

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

(Address of principal executive offices)

33323

(Zip Code)

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

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

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, par value \$0.01 per share	FNHC	NASDAQ Global Market

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

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

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

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

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

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

The aggregate market value of the Registrant's common stock held by non-affiliates was \$168,614,834 as of June 30, 2019, computed on the basis of the closing sale price of the Registrant's common stock on June 28, 2019 (the last business day of the second fiscal quarter).

As of March 1, 2020, the total number of common shares outstanding of Registrant's common stock was 14,209,773.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of this Form 10-K will be incorporated by reference from the Registrant's definitive proxy statement or included in an amendment on Form 10-K/A that will be filed not later than 120 days after the end of the fiscal year ended December 31, 2019.

FEDNAT HOLDING COMPANY
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PART I

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

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

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

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

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

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

- Net realized and unrealized gains (losses), including, but not limited to, gains (losses) associated with investments and early extinguishment of debt;
- Acquisition/integration and other costs and the amortization of specifically identifiable intangibles (other than value of business acquired);
- Impairment of intangibles;
- Income (loss) from initial adoption of new regulations and accounting guidance; and
- Income (loss) from discontinued operations.

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

ITEM 1. BUSINESS

GENERAL

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

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

Maison Insurance Company (“MIC”), an insurance subsidiary that we acquired on December 2, 2019 (see “Maison Acquisition” below for more information), is licensed as an admitted carrier to write homeowners property and casualty insurance as well as wind/hail only exposures by the state insurance departments in Louisiana, Texas and Florida.

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 and MNIC. MNIC was founded in 2015 through a joint venture. On February 21, 2018, FNIC acquired the non-controlling interests in MNIC’s indirect parent company, Monarch Delaware Holdings LLC (“Monarch Delaware”) from our joint venture partners (see “Monarch National Insurance Company,” below, for more information). Maison Managers, Inc. (“MMI”), a wholly-owned subsidiary, serves as the managing general agent for MIC. ClaimCor, LLC (“ClaimCor”), a wholly-owned subsidiary, is a claims solutions company that processes Maison’s claims.

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Gross Premiums Written			
Homeowners:			
Florida	\$ 451,856	\$ 458,652	\$ 482,039
Louisiana	45,043	36,063	31,312
Texas	66,429	22,492	8,491
South Carolina	25,172	17,592	10,803
Alabama	5,841	4,890	4,110
Total homeowners	594,341	539,689	536,755
Personal automobile:			
Texas	—	5,141	19,324
Georgia	(1)	3,078	22,479
Florida	—	384	1,265
Alabama	—	—	437
Total personal automobile	(1)	8,603	43,505
Commercial general liability	(145)	5,384	11,048
Federal flood	16,413	14,088	12,109
Gross premiums written total	\$ 610,608	\$ 567,764	\$ 603,417

Acquisitions and Joint Ventures

Maison Acquisition

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

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

Monarch National Insurance Company

In March 2015, we organized MNIC and obtained its certificate of authority to write homeowners property and casualty insurance in Florida from the Florida Office of Insurance Regulation (the “Florida OIR”). We and Crosswinds Investor Monarch LP (“Crosswinds Investor”), a wholly-owned subsidiary of Crosswinds Holdings Inc. (“Crosswinds Holdings”), a private equity firm and asset manager, each invested \$14.0 million for a 42.4% membership interest (each holding 50.0% of the voting interests in Monarch Delaware). Transatlantic Reinsurance Company (“TransRe”), an international property and casualty reinsurance company, invested \$5.0 million for a 15.2% non-voting membership interest in Monarch Delaware. TransRe also provided a loan represented by a six-year promissory note in the principal amount of \$5.0 million bearing annual interest of 6.0% payable by Monarch National Holding Company (“Monarch Holding”), the direct parent of MNIC and wholly-owned subsidiary of Monarch Delaware (together with MNIC and Monarch Holding, the “Monarch Entities”).

On February 21, 2018, we purchased Crosswinds Investor’s 42.4% Class A membership interest and 50.0% voting interest for \$12.3 million, and TransRe’s 15.2% non-voting membership interest in Monarch Delaware for \$4.4 million. We also repaid the outstanding principal balance and interest due on the \$5.0 million promissory note to TransRe. Following the closing, Monarch Delaware and Monarch Holdings were merged into MNIC. With the completion of these transactions, FNIC owns 100% of 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 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.

Executive Office

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

Available Information

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

INSURANCE OPERATIONS AND RELATED SERVICES

Business Strategy

We expect that in 2020 we will advance our enterprise value through:

- successfully integrating the operations of the Maison Companies into those of the Company in pursuit of geographic diversification as well as operational and expense synergies;
- focusing on our core operations, the Homeowners line of business, while managing the remaining runoff of our non-core Automobile and commercial general liability obligations;
- applying rigorous underwriting standards even if that limits growth in our Florida book of business, due to the challenging claims environment as a result of increased litigation, and focusing our new business efforts on our non-Florida book, which embodies a more favorable underwriting environment;
- increasing rates on our policies where warranted, based on claims experience and the cost of catastrophe reinsurance, irrespective of competitive pricing pressures within the markets where we operate;
- focusing on operational efficiencies in our homeowners operations to reduce expenses in conjunction with our continued investment in, and use of, technology;
- leveraging MNIC by developing and implementing a plan to expand upon MNIC's pricing and product offerings in 2020 to increase market share in the risk-adjusted portion of the Florida homeowners market;
- enhancing our property analytical metrics, such as an increased geographical dispersion of risks, while managing our underwriting appetite, whether new or renewal, to ensure a balanced book of business;
- continued growth in our existing non-Florida markets plus expansion of our homeowners products into other southeastern states, with our recent entrance into Mississippi;
- maintaining our commitment to provide high quality customer service to our agents and insureds;
- continued strengthening of our marketing efforts by retaining key personnel and implementing direct marketing technologies;
- offering attractive incentives to our agents to place a high volume of quality business with our companies;
- continuing with our comprehensive catastrophe reinsurance programs to reduce our exposure to risks; and
- additional strategies that may include possible mergers, acquisitions and joint ventures or dispositions of assets.

Overview of Insurance Lines of Business

Homeowners Property and Casualty Insurance

FNIC, MIC and MNIC underwrite homeowners insurance in Florida and FNIC and MIC also underwrites homeowners insurance in Louisiana and Texas, while FNIC also underwrites homeowners in South Carolina, Alabama and Mississippi. Homeowners insurance generally protects an owner of real and personal property against covered causes of loss to that property. As of December 31, 2019, the total homeowners policies in-force was 374,000, of which 241,000 were in Florida and 133,000 were outside of Florida. As of December 31, 2018, the total homeowners policies in-force was 291,000, of which 247,000 were in Florida and 44,000 were outside of Florida.

Florida

Our homeowners insurance products provide maximum dwelling coverage of approximately \$3.9 million, with the aggregate maximum policy limit being approximately \$6.3 million. We currently offer dwelling coverage "A" up to \$4.0 million with an aggregate total insured value of \$6.5 million. We continually review and update these limits. The approximate average premium on the policies currently in-force is \$1,940, as compared with \$1,873 for 2018. 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.

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

- In 2019, FNIC applied for a reinsurance-related statewide average increase of 2.8% for Florida homeowners multiple-peril insurance policies only, which was approved by the Florida OIR, and became effective for new policies on January 25, 2020 and is expected to become effective for renewal policies on March 15, 2020.

- In 2018, FNIC applied for a statewide average rate increase of 4.6% for Florida homeowners multiple-peril insurance policies, which was approved by the Florida OIR, and became effective for new and renewal policies on April 20, 2019.
- In 2019, FNIC applied for a statewide average rate increase of 3.6% for Florida dwelling fire insurance policies, which was approved by the Florida OIR, and became effective for new and renewal policies on June 1, 2019. Also in 2019, FNIC applied for a reinsurance-related statewide average rate increase of 5.1% for Florida dwelling fire insurance policies, and became effective for new policies on February 25, 2020 and is expected to become effective for renewal policies on April 1, 2020.
- In 2019, MNIC applied for a statewide average rate increase of 14.9% for Florida homeowners multiple-peril insurance policies, which was approved by the Florida OIR, and became effective for renewal policies on October 1, 2019.

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

Non-Florida

Our FNIC non-Florida homeowners insurance products, produced through our partnership with SageSure, provide maximum dwelling coverage "A" up to \$1.8 million, with the aggregate maximum policy limit being approximately \$3.5 million. The approximate average premium on the policies currently in-force is \$1,753, as compared with \$1,758 for 2018. The typical deductible is either \$2,500 or \$1,000 for non-hurricane-related claims and generally 2% of the coverage amount for the structure for hurricane-related claims.

As part of our partnership with SageSure, we entered into a profit share agreement, whereby we share 50% of net profits of this line of business, as calculated per the terms of the agreement, subject to certain limitations. The profit share cost is reflected in commissions and underwriting expenses on our consolidated statement of operations.

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 FNIC and MIC:

- In 2019, FNIC applied for a statewide average rate increase of 5.0% for Texas homeowners multiple-peril insurance policies, which was approved by the Texas Department of Insurance, and became effective for new and renewal policies on October 1, 2019. Also in 2019, FNIC applied for a statewide average rate increase of 4.0% for Louisiana homeowners multiple-peril insurance policies, which was approved by the Louisiana Department of Insurance ("LDI"), and became effective for new and renewal policies on December 1, 2019.
- In 2019, MIC applied for a statewide average rate increase of 30.5% for Texas homeowners multiple-peril insurance policies, which was approved by the LDI, and became effective for new policies on June 1, 2019 and renewal policies on August 1, 2019.

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, and Georgia. FNIC plans to file an admitted flood endorsement as an alternative to the NFIP program. MIC writes flood insurance through a partnership with Bintech who assumes 100% of the risk, in Louisiana only.

MARKETING AND DISTRIBUTION

Our independent agents and general agents have the authority to sell and bind insurance coverage in accordance with procedures established by FNU and MMI. FNU and MMI generally accept all coverage that falls within stated underwriting criteria. For all policies issued, FNU and MMI also have the right, within a period that varies by state between 60 days and 120 days from a policy's inception, to cancel any policy, upon an advanced notice provided in accordance with statutory specific guidelines, even if the risk falls within our underwriting criteria. We are focusing our marketing efforts on continuing to expand our distribution network while maintaining our commitment to long-term relationships. We market our products and services throughout Florida by establishing relationships with independent agents and general agents, and in other states, through our partnership with SageSure. There can be no assurance, however, that we will be able to obtain the required regulatory approvals to offer additional insurance products or expand into other states.

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

LIABILITY FOR LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

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

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

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

Among our classes of insurance, the automobile and homeowners liability and claims historically tend to have longer time lapses between the occurrence of the event, the reporting of the claim and the final settlement, than do automobile physical damage and homeowners property claims. These liability claims often involve parties filing suit and therefore may result in litigation. By comparison, property damage claims tend to be reported in a relatively shorter period of time and settled in a shorter time frame with less occurrence of litigation.

REINSURANCE

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

Reinsurance markets include:

- Traditional local and global reinsurance markets including those in the United States (“U.S.”), Bermuda, London and Europe, accessed directly and through reinsurance intermediaries;
- Capital markets through insurance-linked securities and collateralized reinsurance transactions, such as catastrophe bonds, sidecars and similar vehicles; and
- Other insurers that engage in both direct and assumed reinsurance.

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

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

Significant Reinsurance Contracts

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

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

We are selective in choosing reinsurers and consider numerous factors, the most important of which are the financial stability of the reinsurer or capital specifically pledged to uphold the contract, its history of responding to claims and its overall reputation. In an effort to minimize our exposure to the insolvency of a reinsurer, we evaluate the acceptability and review the financial condition of the reinsurer at least annually with the assistance of our reinsurance broker. As of December 31, 2019 and 2018, we had over 70 reinsurance companies on our program which are required to have at least an “A-” or better rating by A.M. Best Company (“A.M. Best”) or the agreement would need to be fully collateralized.

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

EMPLOYEES

As of December 31, 2019, we had 357 employees. We are not a party to any collective bargaining agreement and we have not experienced work stoppages or strikes as a result of labor disputes. We consider relations with our employees to be satisfactory.

COMPETITION

We operate in highly competitive markets and face competition from national, regional and residual market insurance companies in the homeowners and flood insurance markets. Our competitors include companies that market their products through agents and companies that sell insurance directly to their customers. Large national captive writers may have certain competitive advantages over independent agency writers, including increased name recognition, increased loyalty of their customer base and reduced policy acquisition costs. We compete based on underwriting criteria, pricing, our distribution network and superior service to our agents and insureds. Although our pricing is inevitably influenced, to an extent, by that of our competitors, we believe that it is generally not in our best interest to compete solely on price.

In Florida, more than 40 companies compete with us in the homeowners insurance market. Three of our larger competitors are Citizens, Universal Property and Casualty Insurance Company and Heritage Property and Casualty Insurance Company.

Significant competition also emerged because of fundamental changes made to the property and casualty insurance business in Florida in recent years which resulted in a multi-pronged approach to address the cost of residential property insurance in Florida. First, the law increased the capacity of reinsurance that stabilized the reinsurance market to the benefit of the insurance companies writing in Florida. Second, the law provided for rate relief to all policyholders. The law also authorized the legislatively created insurance company, Citizens, which is free of many of the constraints on private carriers such as minimum surplus, financial ratio requirements, income tax and reinsurance expense, to reduce its premium rates and begin competing against private insurers in the residential property insurance market and expanded the authority of Citizens to write commercial insurance.

Adverse loss experience and increasing catastrophe reinsurance costs in recent years could potentially disrupt smaller competitors that lack adequate scale.

REGULATION

Overview

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

Most states' laws restrict an insurer's underwriting discretion, such as the ability to terminate policies, terminate agents or reject insurance coverage applications, and many state regulators have the power to reduce, or to disallow, increases in premium rates. In addition, state laws generally require that rate schedules and other information be filed with the state's insurance regulatory authority, either directly or through a rating organization with which the insurer is affiliated. The regulatory authority may disapprove a rate filing if it finds that the rates are inadequate, excessive or unfairly discriminatory. Rates, which are not necessarily uniform for all insurers, vary by class of business, hazard covered, and size of risk. Certain states, including Florida, as discussed above, have adopted laws or are considering proposed legislation which, among other things, limit the ability of insurance companies to effect rate increases or to cancel, reduce or non-renew insurance coverage with respect to existing policies, particularly personal automobile insurance.

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

All insurance companies must file quarterly and annual statements with certain regulatory agencies and are subject to regular and special examinations by those agencies. We may be the subject of additional special examinations or analysis. These examinations or analysis may result in one or more corrective orders being issued by the Florida OIR or Louisiana Department of Insurance ("LDI"). The Florida OIR has completed its regularly scheduled statutory examination of FNIC for the five years ended December 31, 2015, of MNIC for the period of March 17, 2015 (inception) through December 31, 2015 and of MNIC for the year ended December 31, 2016. The LDI has completed its regularly scheduled statutory examination of MIC for the three years ended December 31, 2014. There were no material findings by the Florida OIR or LDI in connection with these examinations.

Various states routinely require deposits of assets for the protection of policyholders either in those states or for all policyholders. As of December 31, 2019, FNIC, MIC and MNIC held investment securities with a fair value of approximately \$11.2 million, as deposits with the state of Florida, Texas, Georgia, South Carolina, Alabama and Mississippi.

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

Insurance Holding Company Regulation

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

Restrictions in Payments of Dividends by Domestic Insurance Companies

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

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

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

No dividends were paid by FNIC or MNIC in 2019, 2018 and 2017, and none are anticipated in 2020. No dividends were paid by MIC since the acquisition date, and none are anticipated in 2020. Although we believe that amounts required to meet our financial and operating obligations will be available from sources other than dividends from our insurance subsidiaries, there can be no assurance in this regard. Further, there can be no assurance that, if requested, the Florida OIR or LDI will allow any dividends to be paid by FNIC, MIC or MNIC to FNHC, the parent company, in the future. The maximum dividends permitted by state law are not necessarily indicative of an insurer's actual ability to pay dividends or other distributions to a parent company, which also may be constrained by business and regulatory considerations, such as the impact of dividends on surplus, which could affect an insurer's competitive position, the amount of premiums that can be written and the ability to pay future dividends. Further, state insurance laws and regulations require that the statutory surplus of an insurance company following any dividend or distribution by it be reasonable in relation to its outstanding liabilities and adequate for its financial needs.

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

Underwriting and Marketing Restrictions

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

National Association of Insurance Commissioners Risk-Based Capital Requirements

In order to enhance the regulation of insurer solvency, the National Association of Insurance Commissioners (“NAIC”), established risk-based capital (“RBC”) requirements for insurance companies that are designed to assess capital adequacy and to raise the level of protection that statutory surplus provides for policy holders. These requirements measure four major areas of risk facing property and casualty insurers: (i) underwriting risks, which encompass the risk of adverse loss development and inadequate pricing; (ii) declines in asset values arising from credit risk; (iii) other business risks from investments; and (iv) catastrophe risk. Insurers having less statutory surplus than required will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy. The Florida OIR and LDI, which follows these requirements, could require FNIC, MIC or MNIC to cease operations in the event they fail to maintain the required statutory capital.

Based upon the 2019 and 2018 statutory financial statements for FNIC, MIC and MNIC, statutory surplus exceeded the regulatory action levels established by the NAIC’s RBC requirements.

Based on RBC requirements, the extent of regulatory intervention and action increases as the ratio of an insurer’s statutory surplus to its Authorized Control Level (“ACL”), as calculated under the NAIC’s requirements, decreases. The first action level, the Company Action Level, requires an insurer to submit a plan of corrective actions to the insurance regulators if statutory surplus falls below 200.0% 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 150.0% 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 70.0% of the ACL amount. FNIC’s ratio of statutory surplus to its ACL was 323.9% and 329.9% as of December 31, 2019 and 2018, respectively. MNIC’s ratio of statutory surplus to its ACL was 1,128.7% and 774.4% as of December 31, 2019 and 2018, respectively. MIC’s ratio of statutory surplus to its ACL was 305.7% as of December 31, 2019.

Industry Ratings Services

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

As of December 31, 2019 and 2018, FNIC, MIC, and MNIC are rated by Demotech as “A” (“Exceptional”), which is the third of seven ratings, and defined as “Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, insurers earning an FSR of “A” possess “Exceptional” financial stability related to maintaining surplus as regards to policyholders.” Demotech’s ratings are based upon factors of concern to agents, reinsurers and policyholders and are not primarily directed toward the protection of investors. Our Demotech rating could be jeopardized by factors including adverse development and various surplus related ratio exceptions.

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business

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

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

The occurrence of claims from catastrophic events can result in substantial volatility in our results of operations or financial condition for any fiscal quarter or years as seen in 2019, 2018 and 2017. An elevation in the values and concentrations of insured property may increase the severity of the occurrence of claims in the future. Although we attempt to manage our exposure to such events through the use of underwriting controls and the purchase of third-party reinsurance, catastrophic events are inherently unpredictable and the actual nature of such events when they occur could be more frequent or severe than contemplated in our pricing and risk management expectations. As a result, the occurrence of one or more catastrophic events could have a material adverse effect on our results of operations or financial condition.

Florida, South Carolina and Texas, all states in which we write homeowners policies, experienced several significant hurricanes in 2019, 2018 and 2017, which some weather analysts believe is consistent with a period of greater hurricane activity. Exposure risk management alternatives are carefully evaluated as they may increase operating expenses and may not be successful in protecting long-term profitability. If our loss experience is more adverse than is contemplated by our loss reserves, the related increase in our loss reserves may have a material adverse effect on our results of operations in the period in which the increase occurs.

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

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

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

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

Although we follow the industry practice of reinsuring a portion of our risks, our costs of obtaining reinsurance fluctuates and we may not be able to successfully alleviate risk through reinsurance arrangements.

We have a reinsurance structure that is a combination of private reinsurance and the FHCF. Our reinsurance structure is composed of several reinsurance companies with varying levels of participation providing coverage for losses and LAE at pre-established minimum and maximum amounts. Losses incurred in connection with a catastrophic event below the minimum and above the maximum are the responsibility of FNIC, MIC and MNIC.

The availability and costs associated with the acquisition of reinsurance varies year to year. We are not able to control these fluctuations which may be significant and may limit our ability to purchase adequate coverage. The recovery of increased reinsurance costs through rate increases is not immediate and cannot be presumed, as rate increases are subject to approval of the Florida OIR or LDI. We may be unable to purchase reinsurance for the liabilities we reinsure, and if we successfully purchase such reinsurance, we may be unable to collect, which could adversely affect our business, financial condition and results of operations.

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

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

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

We may experience increased financial exposure from climate change.

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

Restrictive underwriting criteria can include, but are not limited to, higher premiums and deductibles and more specifically excluded policy risks such as fences and screened-in enclosures. New technological advances in computer generated geographical mapping afford us an enhanced perspective as to geographic concentrations of policyholders and proximity to flood prone areas. Our amount of maximum reinsurance coverage is determined by subjecting our homeowners exposures to statistical forecasting models that are designed to quantify a catastrophic event in terms of the frequency of a storm occurring once in every "n" years. If the statistical forecasting models fail to contemplate an emerging claim trend, such as the assignment of insurance benefits in Florida, then there is the risk we may not purchase adequate catastrophic wind coverage. Our reinsurance coverage contemplates the effects of a catastrophic event that occurs only once every 130 years. Our amount of losses retained (our deductible) in connection with a catastrophic event is determined by market capacity, pricing conditions and surplus preservation. There can be no assurance that our reinsurance coverage and other measures taken will be sufficient to mitigate losses resulting from one or more catastrophic events.

Our operations could be adversely affected by contagious terminally severe health viruses.

We are exposed to the risk of natural or man-made events, such as a pandemic or other health related events that could cause a large number of deaths, injuries or business disruptions. Significant influenza pandemics have occurred three times in the last century, but the likelihood, timing or severity of a future pandemic cannot be predicted. A localized or widespread event that directly affects our

workplace or customers could cause a material adverse effect on our results of operations in any period and, depending on their severity, could also materially and adversely affect our ability to effectively conduct business, including our ability to write new business, and our financial condition. Also, such events could harm the financial condition of our reinsurers and thereby increase the probability of default on reinsurance recoveries. Limiting FedNat's exposure to the spread of infectious diseases, the Company has long supported a work from home culture in response to business continuity concerns by establishing and supporting the expansion of the Company's network infrastructure to include dedicated home workstations for most employees.

We may face difficulties integrating the Maison Companies, which we acquired in December 2019. Failure to effectively integrate their operations could harm our growth or operating results.

On December 2, 2019, we completed the acquisition of the Maison Companies from PIH. We face the substantial risks associated with acquisitions of existing businesses. These risks include, but are not limited to, the risk that we may not be able to effectively integrate the operations, personnel, services or technologies of the business acquired; the risks associated with determining adequate loss reserves for the business acquired; the potential disruption of our ongoing businesses; the diversion of management attention because of the substantial management time and resources required; the difficulty in developing or maintaining controls and procedures; and the dilution of our existing shareholders resulting from the issuance of shares of our common stock as part of the acquisition consideration.

Completing the integration of the Maison Companies may require us to use cash resources and incur contingent liabilities. We may also be faced with material liabilities not disclosed to us as part of our due diligence process. If we are not able to address these liabilities and otherwise successfully integrate the acquired business, we may not receive the intended benefits of this acquisition. As a result, our ongoing business, financial condition and results of operations could be materially adversely affected.

If we are unable to grow because our capital must be used to pay greater than anticipated claims, our financial results may suffer.

Our ability to grow in the future will depend on our ability to expand the types of insurance products we offer and the geographic markets in which we do business, both balanced by the business risks we choose to assume and cede. We believe that our company is sufficiently capitalized to operate our business as it now exists and as we currently plan to expand it. Our existing sources of funds include issuance of debt securities, possible sales of our investment securities, and our earnings from operations and investments. Catastrophic events in our market areas, such as the hurricanes experienced in Florida, South Carolina and Texas in 2019, 2018 and 2017, have resulted and may result in greater claims losses than anticipated, which could require us to limit or halt growth while we redeploy our capital to pay these unanticipated claims.

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

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

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

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

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

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

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

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

An example of an existing trend, particularly in Florida homeowners insurance, is the assignment of benefits for a claim where a service provider agrees to make a repair that may be covered by an insurance policy in exchange for the policyholder's right to sue the insurance carrier directly. The assignment of the insurance benefits has substantially increased, and may continue to increase, our exposure to inflated claims, attorney's fees and costs. Although legislative actions in the State of Florida to limit the effect of AOB on insurance companies are being contemplated, there can be no assurances that any such legislative actions will become law or, if enacted, that such actions will have the effect of limiting the impact on us of assignments of benefits by insureds.

Our failure to comply with the covenants in our senior note indenture, including as a result of events beyond our control, could result in an event of default, which could materially and adversely affect our financial condition and results of operations.

The indenture for our senior notes requires us to maintain certain financial ratios and to comply with various operational and other covenants, including limitations on our ability to incur additional debt without the approval of the existing noteholders. If there were an event of default under the indenture that was not cured or waived, the holders of the senior notes could cause all amounts outstanding with respect to the senior notes to be due and payable immediately. We cannot assure you that our assets or cash flow would be sufficient to fully repay the senior notes, either upon maturity or, if accelerated, upon an event of default, or that we would be able to refinance or restructure the payments on the senior notes. This would have a material adverse impact on our liquidity, financial condition and results of operations.

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

Our future capital requirements depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. To the extent that our capital may be insufficient to meet future operating requirements and/or cover losses, we may need to raise additional funds through financings or curtail our growth. Many factors will affect the amount and timing of our capital needs, including our growth and profitability, our claims experience, and the availability of reinsurance, as well as possible acquisition opportunities, market disruptions and other unforeseeable developments.

If we were required to raise additional capital, equity or debt financing may not be available at all or may be available only on terms that are not favorable to us. In the case of equity financings, dilution to our shareholders' ownership could result, and in any case such securities may have rights, preferences and privileges that are senior to those of existing shareholders. If we raise additional funds by incurring debt financing, the terms of the debt may involve significant cash payment obligations as well as covenants and specific financial ratios that may restrict our ability to operate our business or pay dividends. If we cannot obtain adequate capital on favorable terms or at all, our business, financial condition or results of operations could be materially adversely affected.

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

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

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

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

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

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

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

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

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

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

Our investment portfolio contains interest rate sensitive instruments, such as bonds, which may be adversely affected by changes in interest rates. A significant increase in interest rates or decrease in credit worthiness could have a material adverse effect on our financial condition or results of operations. Declines in interest rates could have an adverse effect on our investment income.

We are required to review our investment portfolio to evaluate and assess known and inherent risks associated with each investment type. We revise our evaluations and assessments as conditions change and new information becomes available. This may result in changes in an other-than-temporary impairment (“OTTI”) in our consolidated statements of income. We base our assessment of whether an OTTI has occurred on our case-by-case evaluation of the underlying reasons for the decline in fair value. Because historical trends may not be indicative of future impairments and additional impairments may need to be recorded in the future, no assurances can be provided that we have accurately assessed whether any such impairment is temporary or other-than-temporary or that we have accurately recorded amounts for an OTTI in our financial statements.

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

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

We must accurately evaluate and pay claims that are made under our policies. Many factors affect our ability to pay claims accurately, including the training and experience of our claims representatives, the culture of our claims organization and the effectiveness of our management, our ability to develop or select and implement appropriate procedures and systems to support our claims functions and

other factors. Our failure to pay claims accurately could lead to material litigation, undermine our reputation in the marketplace, impair our image and negatively affect our financial results.

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

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

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

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

Ratios calculated based on RBC tend to be a key criteria in the assignment of ratings by insurance rating agencies.

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

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

New homeowners insurance operations outside of Florida may not be profitable.

Our insurance subsidiaries currently conduct business in a limited number of states in addition to Florida, with concentrations of business in South Carolina, Louisiana and Texas and to a lesser extent in Alabama and Mississippi. Any single catastrophic occurrence or other condition affecting losses in these states could adversely affect the results of our operating results. We plan to continue the expansion of admitted homeowners property and casualty programs into other states as opportunities arise. Expanding our operations to additional states present risks similar to those we currently face with our existing operations, including risks associated with the inability to market an adequately priced policy, inadequate commission structures, and overpriced or unavailable catastrophic reinsurance for wind events. Additionally, we would become subject to the insurance regulators in each state and the laws and regulations designed to regulate the insurance products and operations of new and existing insurance companies under their respective authority. As a result, there can be no guarantees that state regulators will allow us to do business in those states or, if we are approved to operate in a state, that our operations will be profitable in that state.

If we determine to expand to additional states or to expand the types of insurance products we offer, we may incur additional costs and may not obtain the necessary regulatory approvals.

Although we exited the automobile and commercial general liability lines of insurance, we may determine to expand our product offerings in the future by underwriting additional insurance products and programs, and marketing them through our distribution network. Expansion of our product offerings will result in increases in expenses due to additional costs incurred in actuarial rate

justifications, software and personnel. Offering additional insurance products may also require regulatory approval, further increasing our costs. Before we can write insurance in a new state, or sell a new insurance product in a state, we must obtain a license or other approvals from the applicable state insurance regulators. These state insurance regulators may request additional information, add conditions to the license that we find unacceptable, or deny our application. This would delay or prevent us from operating in that state or offering that new product. There can be no assurance that we would be successful bringing new insurance products to our markets in a manner that is profitable.

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

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

- the availability of sufficient reliable data and our ability to properly analyze available data;
- the uncertainties that inherently characterize estimates and assumptions;
- our selection and application of appropriate rating and pricing techniques;
- changes in legal standards, claim settlement practices, medical care expenses and restoration costs;
- regulatory restrictions, including, without limitation regulatory approval of rates sought; and
- legislatively imposed consumer initiatives.

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

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

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

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

The withdrawal or downgrade of our ratings could limit or prevent us from writing or renewing desirable insurance policies, from competing with insurers who have higher ratings, from obtaining adequate reinsurance, or from borrowing on a line of credit or cause us to default on financial covenants contained in certain of our debt financing agreements. The withdrawal or downgrade of our ratings could have a material adverse effect on our results of operations and financial position because our insurance products might no longer be acceptable to the secondary marketplace and mortgage lenders. Furthermore, a withdrawal or downgrade of our ratings could prevent independent agents from selling and servicing our insurance products or could increase the commissions we must pay to these agents.

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

We currently market and distribute our products and services through contractual relationships with a network of independent agents and a select number of general agents. Our independent agents are our primary source for our property and liability insurance policies. Many of our competitors also rely on independent agents. As a result, we must compete with other insurers for independent agents'

business. Our competitors may offer a greater variety of insurance products, lower premiums for insurance coverage, or higher commissions to their agents. If our products, pricing and commissions do not remain competitive, we may find it more difficult to attract business from independent agents to sell our products. A material reduction in the amount of our products that independent agents sell or a material reduction in the number of independent agents with whom we maintain a relationship could negatively affect our results of operations and financial condition.

We are a party to an insurance agency master agreement with ISA, an affiliate of Allstate, pursuant to which we are authorized by ISA to appoint Allstate agents to offer our homeowners insurance products to consumers in Florida. Since that time, our homeowners premiums and the percentage of homeowners premiums attributable to Allstate agents has increased rapidly. During the years ended December 31, 2019, 2018 and 2017, 23.2%, 23.8% and 23.8%, respectively, of the homeowners premiums we underwrote were from Allstate's network of Florida agents, and this concentration may continue to increase. An interruption or change in our relationship with ISA could have a material adverse effect on the amount of premiums we are able to write, as well as our results of operations.

We are a party to a managing general underwriting agreement with SageSure to facilitate growth in our FNIC homeowners business outside of Florida. As a percentage of our total homeowners premiums, 23.1%, 15.0% and 10.2%, for the years ended December 31, 2019, 2018 and 2017, respectively, were underwritten by SageSure. The profitability of the business we obtain outside of Florida through this agreement will depend substantially on the quality of underwriting performed by SageSure. An interruption in SageSure's services for us, or issues with the quality of SageSure's underwriting, could have a material adverse effect on the profitability of the business obtained through this relationship.

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

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

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

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

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

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

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

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

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

We operate in highly competitive markets and face competition from national, regional and residual market insurance companies in the homeowners markets, many of whom are larger, have greater financial and other resources, have higher financial strength ratings and offer more diversified insurance coverage. Our competitors include companies that market their products through agents, as well as companies that sell insurance directly to their customers. Large national captive writers may have certain competitive advantages over independent agency writers, including increased name recognition, increased loyalty of their customer base and reduced policy acquisition costs. We may be forced to reduce our premiums or increase our commissions significantly to compete, which could make us less profitable and have a material adverse effect on our business, results of operations and financial condition. If we do not meet the prices offered by our competitors, we may lose business in the short term, which could also result in a material adverse effect on our business, results of operations and financial condition.

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

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

If we are unable to maintain effective internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock may be negatively affected.

As a public company, we are required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. Section 404 of the Sarbanes-Oxley Act of 2002 requires that we evaluate and determine the effectiveness of our internal controls over financial reporting and provide a management report on the internal controls over financial reporting. If we have a material weakness in our internal controls over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated.

If in the future we identify material weaknesses in our internal controls over financial reporting, are unable to comply with the requirements of Section 404 in a timely manner or are unable to assert that our internal controls over financial reporting are effective, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected. We could also become subject to investigations by the SEC, Nasdaq or other regulatory authorities, which could require additional financial and management resources to address.

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

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

Risks Related to an Investment in Our Shares

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

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

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

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

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

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

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

We are an insurance holding company whose primary assets are our subsidiaries. Our operations, and our ability to pay dividends or service our debt, are limited by the earnings of our subsidiaries and their payment of their earnings to us in the form of management fees, commissions, dividends, loans, advances or the reimbursement of expenses. These payments can be made only when our subsidiaries have adequate earnings. In addition, dividend payments made to us by our insurance subsidiaries are restricted by Florida law governing the insurance industry. Generally, Florida law limits the dividends payable by insurance companies under complicated formulas based on the subsidiaries' available capital and earnings.

Payment of dividends in the future will depend upon our earnings and financial position and such other factors, as our board of directors deems relevant.

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

Investors currently known to be the beneficial owners of more than 5.0% of our common stock hold approximately 45% of our outstanding shares. This includes PIH, which received 1,773,102 shares in the closing of our acquisition of the Maison Companies. The resale of PIH's shares has been registered, but is subject to certain limitations under our standstill agreement with PIH. Sales of a substantial number of shares of our common stock in the public market or otherwise by our existing shareholders, or the possibility or perception that such sales could occur, could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities. In addition, we may issue additional shares of our common stock from time to time in the future in amounts that may be significant. The sale of substantial amounts of our common stock by us, or the perception that these

sales may occur, could adversely impact our stock price. Refer to Note 3 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report for information regarding our acquisition of the Maison Companies.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

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

Refer to Note 10 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for further information regarding our leases.

ITEM 3. LEGAL PROCEEDINGS

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

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

Refer to Note 10 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for further information regarding our legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

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

HOLDERS

As of March 1, 2020, there were 102 holders of record of our common stock.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table summarizes our equity compensation plans as of December 31, 2019. All equity compensation plans were approved by our shareholders. We have not granted any options, warrants or rights to our shareholders outside of these equity compensation plans.

Equity Compensation Plan Information			
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders	38,850	3.80	689,890

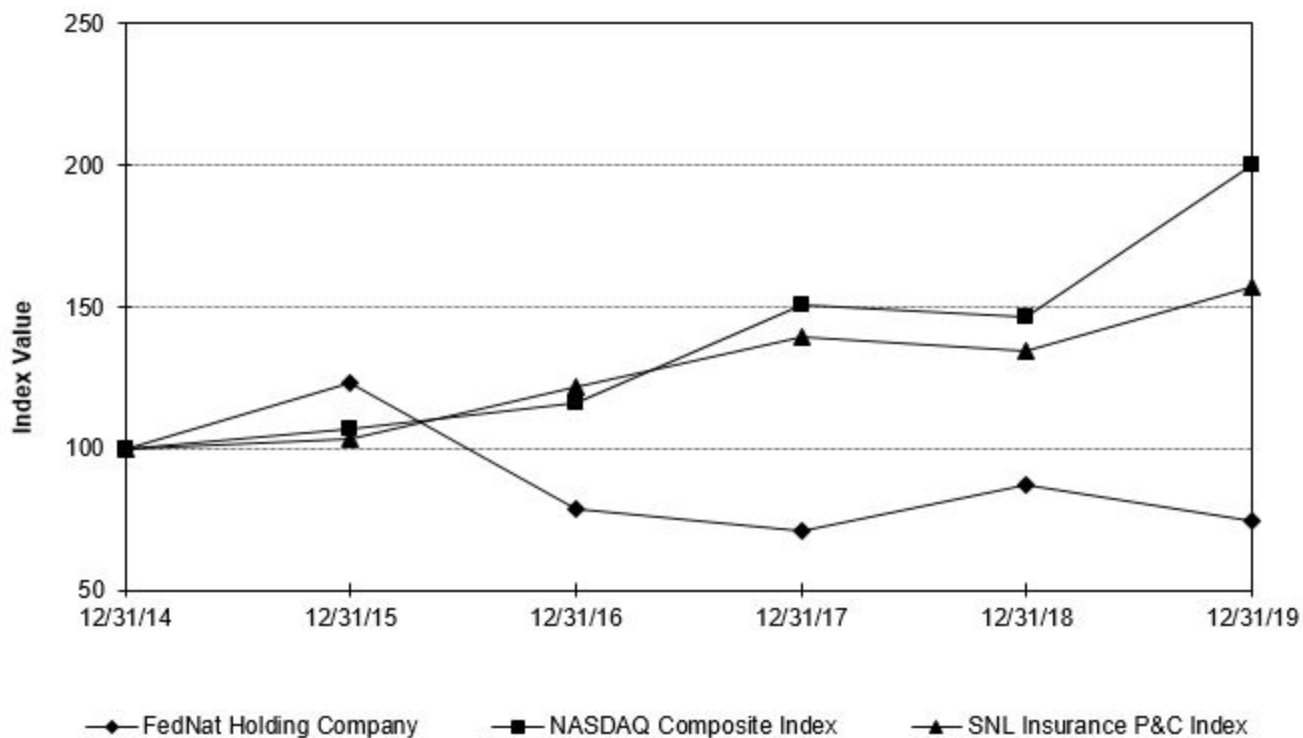
Refer to Note 11 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for additional information regarding our equity compensation.

STOCK PERFORMANCE GRAPH

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

FedNat Holding Company

Total Return Performance



<i>Index</i>	<i>Period Ending</i>					
	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
FedNat Holding Company	100.00	123.08	78.81	71.24	87.13	74.37
NASDAQ Composite	100.00	106.96	116.45	150.96	146.67	200.49
SNL Insurance P&C	100.00	103.44	122.08	139.58	134.19	157.47

Returns are based on the change in year-end to year-end price. The graph assumes \$100 was invested on December 31, 2014 in our common stock, the NASDAQ Composite Index and the SNL Property & Casualty Insurance Index and that all dividends were reinvested. Past performance is not necessarily an indicator of future results.

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

RECENT SALES OF UNREGISTERED SECURITIES

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

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations set forth elsewhere in this Annual Report.

	Year Ended December 31,				
	2019	2018	2017	2016	2015
	(In thousands, except per share data)				
Statement of Operations Data					
Revenues:					
Net premiums earned	\$ 363,652	\$ 355,257	\$ 333,481	\$ 261,369	\$ 213,020
Net investment income	15,901	12,460	10,254	9,063	7,226
Net realized and unrealized investment gains (losses)	7,084	(4,144)	8,548	3,045	3,616
Direct written policy fees	10,200	13,366	17,173	16,619	9,740
Other income	18,124	19,154	22,206	17,429	9,869
Total revenues	<u>414,961</u>	<u>396,093</u>	<u>391,662</u>	<u>307,525</u>	<u>243,471</u>
Costs and expenses:					
Losses and loss adjustment expenses	273,080	228,416	247,557	197,810	112,710
Commissions and other underwriting expenses	107,189	121,109	114,867	90,378	52,862
General and administrative expenses	23,203	22,183	19,963	17,186	14,698
Interest expense	10,776	4,177	348	348	256
Total costs and expenses	<u>414,248</u>	<u>375,885</u>	<u>382,735</u>	<u>305,722</u>	<u>180,526</u>
Income (loss) before income taxes	713	20,208	8,927	1,803	62,945
Income tax expense (benefit)	(298)	5,498	3,585	542	24,089
Net income (loss)	1,011	14,710	5,342	1,261	38,856
Net income (loss) attributable to non-controlling interest	—	(218)	(2,647)	246	(445)
Net income (loss) attributable to FedNat Holding Company shareholders	<u>\$ 1,011</u>	<u>\$ 14,928</u>	<u>\$ 7,989</u>	<u>\$ 1,015</u>	<u>\$ 39,301</u>

Net income (loss) per share attributable to FedNat Holding Company shareholders					
Basic	\$ 0.08	\$ 1.17	\$ 0.61	\$ 0.07	\$ 2.86
Diluted	0.08	1.16	0.60	0.07	2.81
Dividends	0.33	0.24	0.32	0.27	0.18

	December 31,				
	2019	2018	2017	2016	2015
	(In thousands, except per share data)				
Balance Sheet Data					
Cash and invested assets	\$ 684,002	\$ 515,948	\$ 530,249	\$ 484,275	\$ 437,369
Total assets	1,179,016	925,371	904,873	815,390	701,373
Loss and loss adjustment expense reserves	324,362	296,230	230,515	158,110	97,706
Total liabilities	930,323	710,112	677,414	580,925	455,216
Total shareholders' equity	248,693	215,259	227,459	234,465	246,157
Book value per share, excluding non-controlling interest	17.25	16.84	16.29	16.01	16.52

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

RESULTS OF OPERATIONS

Operating Results Overview — Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

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

	Year Ended December 31,		
	2019	% Change	2018
	(Dollars in thousands)		
Revenues:			
Gross premiums written	\$ 610,608	7.5 %	\$ 567,764
Gross premiums earned	582,334	0.4 %	580,020
Ceded premiums	(218,682)	(2.7)%	(224,763)
Net premiums earned	363,652	2.4 %	355,257
Net investment income	15,901	27.6 %	12,460
Net realized and unrealized investment gains (losses)	7,084	(270.9)%	(4,144)
Direct written policy fees	10,200	(23.7)%	13,366
Other income	18,124	(5.4)%	19,154
Total revenues	414,961	4.8 %	396,093
Costs and expenses:			
Losses and loss adjustment expenses	273,080	19.6 %	228,416
Commissions and other underwriting expenses	107,189	(11.5)%	121,109
General and administrative expenses	23,203	4.6 %	22,183
Interest expense	10,776	158.0 %	4,177
Total costs and expenses	414,248	10.2 %	375,885
Income (loss) before income taxes	713	(96.5)%	20,208
Income tax expense (benefit)	(298)	(105.4)%	5,498
Net income (loss)	1,011	(93.1)%	14,710
Net income (loss) attributable to non-controlling interest	—	(100.0)%	(218)
Net income (loss) attributable to FNHC shareholders	\$ 1,011	(93.2)%	\$ 14,928
Ratios to net premiums earned:			
Net loss ratio	75.1 %		64.3 %
Net expense ratio	35.9 %		40.3 %
Combined ratio	111.0 %		104.6 %

- (1) Net loss ratio is calculated as losses and loss adjustment expenses 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 loss adjustment expenses and all operating expenses less interest expense divided by net premiums earned.

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

	Year Ended December 31,							
	2019				2018			
	Homeowners	Automobile	Other	Consolidated	Homeowners	Automobile	Other	Consolidated
	(Dollars in thousands)							
Revenue								
Total revenues	\$ 387,300	\$ 28	\$ 27,633	\$ 414,961	\$ 364,752	\$ 10,128	\$ 21,213	\$ 396,093
Less:								
Net realized and unrealized investment gains (losses)	—	—	7,084	7,084	—	—	(4,144)	(4,144)
Adjusted operating revenues	<u>\$ 387,300</u>	<u>\$ 28</u>	<u>\$ 20,549</u>	<u>\$ 407,877</u>	<u>\$ 364,752</u>	<u>\$ 10,128</u>	<u>\$ 25,357</u>	<u>\$ 400,237</u>
Net Income (Loss)								
Net income (loss)	\$ 5,665	\$ (4,040)	\$ (614)	\$ 1,011	\$ 22,175	\$ (5,648)	\$ (1,599)	\$ 14,928
Less:								
Net realized and unrealized investment gains (losses)	—	—	5,347	5,347	—	—	(3,094)	(3,094)
Acquisition and other costs	(237)	(5)	(1,025)	(1,267)	(1,488)	(70)	(410)	(1,968)
Acquisition of identifiable intangibles	(10)	—	—	(10)	—	—	—	—
Gain (loss) on early extinguishment of debt	—	—	(2,698)	(2,698)	—	—	—	—
Adjusted operating income (loss)	<u>\$ 5,912</u>	<u>\$ (4,035)</u>	<u>\$ (2,238)</u>	<u>\$ (361)</u>	<u>\$ 23,663</u>	<u>\$ (5,578)</u>	<u>\$ 1,905</u>	<u>\$ 19,990</u>
Income tax rate assumed for reconciling items above	24.522 %	24.522 %	24.522 %	24.522 %	25.345 %	25.345 %	25.345 %	25.345 %

The following table summarizes our results of operations by line of business for the periods presented. Although we conduct our operations under a single reportable segment, we have provided line of business information as we believe it is useful to our shareholders and the investing public. “Homeowners” line of business consists of our homeowners and fire property and casualty insurance business. “Automobile” line of business consists of our nonstandard personal automobile insurance business. “Other” line of business primarily consists of our commercial general liability and federal flood businesses, along with corporate and investment operations.

Year Ended December 31,

	2019				2018			
	Homeowners	Automobile	Other	Consolidated	Homeowners	Automobile	Other	Consolidated
	(Dollars in thousands)							
Revenues:								
Gross premiums written	\$ 594,341	\$ (1)	\$ 16,268	\$ 610,608	\$ 539,689	\$ 8,603	\$ 19,472	\$ 567,764
Gross premiums earned	565,566	26	16,742	582,334	539,692	18,402	21,926	580,020
Ceded premiums	(203,383)	(20)	(15,279)	(218,682)	(197,445)	(13,744)	(13,574)	(224,763)
Net premiums earned	362,183	6	1,463	363,652	342,247	4,658	8,352	355,257
Net investment income	—	—	15,901	15,901	—	—	12,460	12,460
Net realized and unrealized investment gains (losses)	—	—	7,084	7,084	—	—	(4,144)	(4,144)
Direct written policy fees	9,915	3	282	10,200	8,484	4,322	560	13,366
Other income	15,202	19	2,903	18,124	14,021	1,148	3,985	19,154
Total revenues	387,300	28	27,633	414,961	364,752	10,128	21,213	396,093
Costs and expenses:								
Losses and loss adjustment expenses	257,297	5,128	10,655	273,080	206,062	11,617	10,737	228,416
Commissions and other underwriting expenses	104,071	51	3,067	107,189	111,103	5,751	4,255	121,109
General and administrative expenses	18,818	200	4,185	23,203	18,079	325	3,779	22,183
Interest expense	—	—	10,776	10,776	100	—	4,077	4,177
Total costs and expenses	380,186	5,379	28,683	414,248	335,344	17,693	22,848	375,885
Income (loss) before income taxes	7,114	(5,351)	(1,050)	713	29,408	(7,565)	(1,635)	20,208
Income tax expense (benefit)	1,449	(1,311)	(436)	(298)	7,451	(1,917)	(36)	5,498
Net income (loss)	5,665	(4,040)	(614)	1,011	21,957	(5,648)	(1,599)	14,710
Net income (loss) attributable to non-controlling interest	—	—	—	—	(218)	—	—	(218)
Net income (loss) attributable to FNHC shareholders	\$ 5,665	\$ (4,040)	\$ (614)	\$ 1,011	\$ 22,175	\$ (5,648)	\$ (1,599)	\$ 14,928
Ratios to net premiums earned:								
Net loss ratio	71.0 %	NCM	NCM	75.1 %	60.2 %	249.4 %	128.6 %	64.3 %
Net expense ratio	34.0 %			35.9 %	37.8 %			40.3 %
Combined ratio	105.0 %			111.0 %	98.0 %			104.6 %

Revenue

Total revenue increased \$18.9 million, or 4.8%, to \$415.0 million for the year ended December 31, 2019, as compared to \$396.1 million for the year ended December 31, 2018. The increase was primarily driven by higher net premiums growth from Homeowners and higher net investment gains offset by lower net premiums earned in Automobile and commercial general liability, all of which are discussed below.

Gross Premiums Written

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

	Year Ended December 31,	
	2019	2018
	(In thousands)	
Gross premiums written:		
Homeowners Florida	\$ 451,856	\$ 458,652
Homeowners non-Florida	142,485	81,037
Automobile	(1)	8,603
Commercial general liability	(145)	5,384
Federal flood	16,413	14,088
Total gross premiums written	<u>\$ 610,608</u>	<u>\$ 567,764</u>

Gross premiums written increased \$42.8 million, or 7.5%, to \$610.6 million for the year ended December 31, 2019, as compared to \$567.8 million for the year ended December 31, 2018. Gross premiums written increased primarily due to the growth in homeowners non-Florida, including \$6.6 million from Maison, partially offset by the decline in the non-core lines we are exiting, Automobile and commercial general liability, as well as a decline in homeowners Florida. Our homeowners non-Florida business continues to show exceptional growth year over year, especially in the state of Texas, and now with Maison's book of business, will allow us to leverage our infrastructure and diversify insurance risk. Overall, Homeowners grew 10.1%.

Gross Premiums Earned

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

	Year Ended December 31,	
	2019	2018
	(In thousands)	
Gross premiums earned:		
Homeowners Florida	\$ 452,730	\$ 473,121
Homeowners non-Florida	112,836	66,571
Automobile	26	18,402
Commercial general liability	1,669	8,794
Federal flood	15,073	13,132
Total gross premiums earned	<u>\$ 582,334</u>	<u>\$ 580,020</u>

Gross premiums earned increased \$2.3 million, or 0.4%, to \$582.3 million for the year ended December 31, 2019, as compared to \$580.0 million for the year ended December 31, 2018. Gross premiums earned increased primarily due to a 4.8% increase in earned premiums in Homeowners, which includes \$7.9 million from Maison, partially offset by our decision to exit the Automobile and commercial general liability lines.

Ceded Premiums Earned

Ceded premiums earned decreased \$6.1 million, or 2.7%, to \$218.7 million for the year ended December 31, 2019, as compared to \$224.8 million for the year ended December 31, 2018. The decrease was primarily driven by lower ceded premiums in Automobile as we have exited that line of business, partially offset by higher excess of loss reinsurance spend in Homeowners.

Net Investment Income

Net investment income increased \$3.4 million, or 27.6%, to \$15.9 million for the year ended December 31, 2019, as compared to \$12.5 million for the year ended December 31, 2018. The increase was due to fixed income portfolio growth and the improvement in the yield as a result of rising interest rates during 2018 and from portfolio repositioning.

Net Realized and Unrealized Investment Gains (Losses)

Net realized and unrealized investment gains (losses) increased \$11.2 million, to \$7.1 million for the year ended December 31, 2019, as compared to \$(4.1) million for the year ended December 31, 2018. We recognized \$4.1 million and \$(1.2) million in unrealized investment gains (losses) for equity securities during these respective periods. Our current year net realized gains and prior year net realized losses are primarily associated with our portfolio managers, under our control, moving out of positions due to both macro and micro conditions, a typical practice each and every quarter. Our prior year net realized losses also resulted from our decision to liquidate certain bond positions, including positions related to tax-free municipal securities during the first quarter of 2018.

Direct Written Policy Fees

Direct written policy fees decreased by \$3.2 million, or 23.7%, to \$10.2 million for the year ended December 31, 2019, as compared to \$13.4 million for the year ended December 31, 2018. The decrease in direct written policy fees is correlated to our decision to exit the Automobile line, as discussed earlier.

Other Income

Other income decreased \$1.1 million, or 5.4%, to \$18.1 million for the year ended December 31, 2019, as compared to \$19.2 million for the year ended December 31, 2018. Other income included the following for the periods presented:

	Year Ended December 31,		
	2019	% Change	2018
	(Dollars in thousands)		
Other income:			
Commission income	\$ 2,904	(37.5)%	\$ 4,649
Brokerage	13,577	10.3 %	12,305
Financing and other revenue	1,643	(25.3)%	2,200
Total other income	<u>\$ 18,124</u>	<u>(5.4)%</u>	<u>\$ 19,154</u>

The decrease in other income was driven by lower commission income and financing revenue, partially offset by higher brokerage revenue. The year over year decreases in commission income were driven by lower Automobile fee income from the reduction in premiums earned and, to a lesser extent, lower fee income from other areas of the business. The brokerage revenue increase is the result of higher excess of loss reinsurance spend from the reinsurance programs in place during 2019 as compared to 2018.

Expenses

Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses ("LAE") increased \$44.7 million, or 19.6%, to \$273.1 million for the year ended December 31, 2019, as compared to \$228.4 million for the year ended December 31, 2018. Homeowners losses increased \$51.2 million during the year ended December 31, 2019 as compared to the year ended December 31, 2018, slightly offset by \$6.5 million of decreases in Automobile and commercial general liability as we exit these lines, across the same period.

The net loss ratio increased 10.8 percentage points, to 75.1% in 2019, as compared to 64.3% in 2018. The higher ratio was primarily the result of \$52.7 million of net losses from 2019 severe weather events in Florida and other states (of which \$26.5 million relates to

non-Florida losses and is subject to a 50% profit-sharing agreement, as discussed earlier), as compared to \$31.5 million from 2018 severe weather events. Additionally, we incurred approximately \$10 million of additional losses in 2019 as compared to 2018 as a result of higher gross premiums earned. We, also, strengthened current accident year reserves in 2019, primarily in Florida in response to higher severity trends from AOB and the overall litigation environment in Florida. Lastly, in 2019, we had approximately \$12.8 million of adverse prior year reserve development, in our non-core lines, as we exit these lines.

Commissions and Other Underwriting Expenses

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

	Year Ended December 31,	
	2019	2018
	(In thousands)	
Commissions and other underwriting expenses:		
Homeowners Florida	\$ 52,962	\$ 56,693
All others	25,491	19,948
Ceding commissions	(12,128)	(12,743)
Total commissions	<u>66,325</u>	<u>63,898</u>
Automobile	3	4,322
Homeowners non-Florida	<u>3,365</u>	<u>2,147</u>
Total fees	<u>3,368</u>	<u>6,469</u>
Salaries and wages	12,114	14,279
Other underwriting expenses	<u>25,382</u>	<u>36,463</u>
Total commissions and other underwriting expenses	<u>\$ 107,189</u>	<u>\$ 121,109</u>

Commissions and other underwriting expenses decreased \$13.9 million, or 11.5%, to \$107.2 million for the year ended December 31, 2019, as compared to \$121.1 million for the year ended December 31, 2018. The decrease is the result of lower profit share costs recorded within the other underwriting expenses account. As noted above, we have a 50% profit share agreement with our managing general underwriter on FNIC's non-Florida business, whereby we split 50% of the profits. Accordingly, in 2019, non-Florida incurred higher losses from severe weather events (as previously discussed in the Losses and Loss Adjustment Expenses section), resulting in a \$13.3 million reduction.

Additionally, the lower Automobile fees and lower homeowners Florida commissions are driven by the corresponding change in premiums earned across periods. The decline in salaries and wages is due in part to our continued focus on operational efficiencies. These items are partially offset by an increase in homeowners non-Florida commissions and fees as a result of higher premiums earned across periods.

The net expense ratio decreased 4.4 percentage points to 35.9% in 2019, as compared to 40.3% in 2018. The decrease in the ratio is attributable to the lower non-Florida profit share expense and other expense reductions. Refer to the discussion above for more information.

General and Administrative Expenses

General and administrative expenses increased \$1.0 million, or 4.6%, to \$23.2 million for the year ended December 31, 2019, as compared to \$22.2 million for the year ended December 31, 2018. The increase was primarily the result of higher professional fees, including deal costs and due diligence costs relating to the acquisition of the Maison Companies, as previously discussed.

Interest Expense

Interest expense increased \$6.6 million to \$10.8 million for the year ended December 31, 2019, as compared to \$4.2 million for the year ended December 31, 2018. The increase in interest expense is the result of \$3.6 million of prepayment fees, including the write-off of remaining debt issuance costs, and an increase in the outstanding debt as a result of our first quarter 2019 borrowing. Refer to Note 3 and 8 of the notes to our Consolidated Financial Statements included herein, for information regarding new debt issued and debt retirement that occurred in March 2019.

Income Taxes

Income tax expense (benefit) decreased \$5.8 million, or 105.4%, to \$(0.3) million for the year ended December 31, 2019, as compared to \$5.5 million for the year ended December 31, 2018. The decrease in income tax expense is the result of lower income during 2019, compared to 2018. Additionally, in 2019, we recognized a benefit of \$0.4 million relating to an election to carry back capital losses and a benefit of \$0.2 million relating to a reduction in the uncertain tax position reserve. Lastly, the State of Florida announced a reduction in its state income tax rate effective from January 1, 2019, as discussed earlier.

Operating Results Overview — Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

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

	Year Ended December 31,		
	2018	% Change	2017
	(Dollars in thousands)		
Revenues:			
Gross premiums written	\$ 567,764	(5.9)%	\$ 603,417
Gross premiums earned	580,020	(3.8)%	603,193
Ceded premiums	(224,763)	(16.7)%	(269,712)
Net premiums earned	355,257	6.5 %	333,481
Net investment income	12,460	21.5 %	10,254
Net realized and unrealized investment gains (losses)	(4,144)	(148.5)%	8,548
Direct written policy fees	13,366	(22.2)%	17,173
Other income	19,154	(13.7)%	22,206
Total revenues	396,093	1.1 %	391,662
Costs and expenses:			
Losses and loss adjustment expenses	228,416	(7.7)%	247,557
Commissions and other underwriting expenses	121,109	5.4 %	114,867
General and administrative expenses	22,183	11.1 %	19,963
Interest expense	4,177	1,100.3 %	348
Total costs and expenses	375,885	(1.8)%	382,735
Income (loss) before income taxes	20,208	126.4 %	8,927
Income tax expense (benefit)	5,498	53.4 %	3,585
Net income (loss)	14,710	175.4 %	5,342
Net income (loss) attributable to non-controlling interest	(218)	(91.8)%	(2,647)
Net income (loss) attributable to FNHC shareholders	\$ 14,928	86.9 %	\$ 7,989
Ratios to net premiums earned:			
Net loss ratio	64.3 %		74.2 %
Net expense ratio	40.3 %		40.5 %
Combined ratio	104.6 %		114.7 %

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

	Year Ended December 31,							
	2018				2017			
	Homeowners	Automobile	Other	Consolidated	Homeowners	Automobile	Other	Consolidated
	(Dollars in thousands)							
Revenue								
Total revenues	\$ 364,752	\$ 10,128	\$ 21,213	\$ 396,093	\$ 320,632	\$ 34,765	\$ 36,265	\$ 391,662
Less:								
Net realized and unrealized investment gains (losses)	—	—	(4,144)	(4,144)	—	—	8,548	8,548
Adjusted operating revenues	\$ 364,752	\$ 10,128	\$ 25,357	\$ 400,237	\$ 320,632	\$ 34,765	\$ 27,717	\$ 383,114
Net Income (Loss)								
Net income (loss)	\$ 22,175	\$ (5,648)	\$ (1,599)	\$ 14,928	\$ 3,215	\$ (7,132)	\$ 11,906	\$ 7,989
Less:								
Net realized and unrealized investment gains (losses)	—	—	(3,094)	(3,094)	—	—	5,251	5,251
Acquisition and other costs	(1,488)	(70)	(410)	(1,968)	—	—	—	—
Adjusted operating income (loss)	\$ 23,663	\$ (5,578)	\$ 1,905	\$ 19,990	\$ 3,215	\$ (7,132)	\$ 6,655	\$ 2,738
Income tax rate assumed for reconciling items above	25.345 %	25.345 %	25.345 %	25.345 %	38.575 %	38.575 %	38.575 %	38.575 %

	Year Ended December 31,							
	2018				2017			
	Homeowners	Automobile	Other	Consolidated	Homeowners	Automobile	Other	Consolidated
	(Dollars in thousands)							
Revenues:								
Gross premiums written	\$ 539,689	\$ 8,603	\$ 19,472	\$ 567,764	\$ 536,755	\$ 43,505	\$ 23,157	\$ 603,417
Gross premiums earned	539,692	18,402	21,926	580,020	525,524	54,679	22,990	603,193
Ceded premiums	(197,445)	(13,744)	(13,574)	(224,763)	(227,269)	(31,037)	(11,406)	(269,712)
Net premiums earned	342,247	4,658	8,352	355,257	298,255	23,642	11,584	333,481
Net investment income	—	—	12,460	12,460	—	—	10,254	10,254
Net realized and unrealized investment gains (losses)	—	—	(4,144)	(4,144)	—	—	8,548	8,548
Direct written policy fees	8,484	4,322	560	13,366	8,715	7,846	612	17,173
Other income	14,021	1,148	3,985	19,154	13,662	3,277	5,267	22,206
Total revenues	364,752	10,128	21,213	396,093	320,632	34,765	36,265	391,662
Costs and expenses:								
Losses and loss adjustment expenses	206,062	11,617	10,737	228,416	206,842	32,752	7,963	247,557
Commissions and other underwriting expenses	111,103	5,751	4,255	121,109	97,111	12,976	4,780	114,867
General and administrative expenses	18,079	325	3,779	22,183	15,403	650	3,910	19,963
Interest expense	100	—	4,077	4,177	348	—	—	348
Total costs and expenses	335,344	17,693	22,848	375,885	319,704	46,378	16,653	382,735
Income (loss) before income taxes	29,408	(7,565)	(1,635)	20,208	928	(11,613)	19,612	8,927
Income tax expense (benefit)	7,451	(1,917)	(36)	5,498	360	(4,481)	7,706	3,585
Net income (loss)	21,957	(5,648)	(1,599)	14,710	568	(7,132)	11,906	5,342
Net income (loss) attributable to non-controlling interest	(218)	—	—	(218)	(2,647)	—	—	(2,647)
Net income (loss) attributable to FNHC shareholders	\$ 22,175	\$ (5,648)	\$ (1,599)	\$ 14,928	\$ 3,215	\$ (7,132)	\$ 11,906	\$ 7,989
Ratios to net premiums earned:								
Net loss ratio	60.2 %	249.4 %	128.6 %	64.3 %	69.4 %	138.5 %	68.7 %	74.2 %
Net expense ratio	37.8 %			40.3 %	37.7 %			40.5 %
Combined ratio	98.0 %			104.6 %	107.1 %			114.7 %

Revenue

Total revenue increased \$4.4 million, or 1.1%, to \$396.1 million for the year ended December 31, 2018, as compared to \$391.7 million for the year ended December 31, 2017. The increase was primarily driven by lower ceded premiums due to decreased reinsurance spend, partially offset by lower gross premiums earned and recognized losses on our investments, all of which is discussed below.

Gross Premiums Written

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

	Year Ended December 31,	
	2018	2017
	(In thousands)	
Gross premiums written:		
Homeowners Florida	\$ 458,652	\$ 482,039
Homeowners non-Florida	81,037	54,716
Automobile	8,603	43,505
Commercial general liability	5,384	11,048
Federal flood	14,088	12,109
Total gross premiums written	<u>\$ 567,764</u>	<u>\$ 603,417</u>

Gross premiums written decreased \$35.6 million, or 5.9%, to \$567.8 million for the year ended December 31, 2018, as compared to \$603.4 million for the year ended December 31, 2017. Gross premiums written decreased primarily due to the decline in Automobile and homeowners Florida offset by the growth in homeowners non-Florida.

The lower premiums in Automobile was due to our decision to select specific types and amounts of premiums to be underwritten with consideration and focus on profitability. Automobile was not profitable throughout the 2017 year and we announced in December 2017 that we were taking the appropriate steps, including the completion of all required regulatory filings and approvals, to withdraw from Automobile. Effective August 1, 2018, a novation agreement was executed with a third party transferring the Texas automobile book to another insurance carrier. The unearned premium reserve on the in-force business and the claims handling responsibility for losses relating to the Texas auto business after July 31, 2018 were transferred to the third party. Our gross premiums written in Automobile in the fourth quarter of 2018 was insignificant. The increase in the homeowners non-Florida gross premiums written was due to the expansion of our operations outside of Florida, allowing us to leverage our infrastructure and diversify insurance risk. Additionally, homeowners Florida written premiums in 2018 includes the effect of the rate increase of 10.0%, that became effective on August 1, 2017.

Gross Premiums Earned

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

	Year Ended December 31,	
	2018	2017
	(In thousands)	
Gross premiums earned:		
Homeowners Florida	\$ 473,121	\$ 481,541
Homeowners non-Florida	66,571	43,983
Automobile	18,402	54,679
Commercial general liability	8,794	12,216
Federal flood	13,132	10,774
Total gross premiums earned	<u>\$ 580,020</u>	<u>\$ 603,193</u>

Gross premiums earned decreased \$23.2 million, or 3.8%, to \$580.0 million for the year ended December 31, 2018, as compared to \$603.2 million for the year ended December 31, 2017. The results are a reflection of our decision to exit the Automobile and commercial general liability lines, as discussed earlier, and were partially offset by a 3.4% increase in earned premiums in Homeowners. Additionally, in homeowners Florida, our August 1, 2017 10.0% rate increase is fully reflected in earned premiums as of the end of the

third quarter of 2018, representing approximately \$30 million of incremental premiums earned in 2018 (from 2017) and our homeowners non-Florida continues to grow on an earned basis.

Ceded Premiums Earned

Ceded premiums earned decreased \$44.9 million, or 16.7%, to \$224.8 million for the year ended December 31, 2018, as compared to \$269.7 million for the year ended December 31, 2017. The decrease was primarily driven by lower excess of loss reinsurance spend of \$15.1 million and lower ceding from our homeowners Florida quota-share from 10% to 2% during the third quarter of 2018, a \$14.7 million impact, as well as lower gross premiums earned in Automobile during the current period as a result of lower premiums earned, as mentioned earlier.

Net Investment Income

Net investment income increased \$2.2 million, or 21.5%, to \$12.5 million for the year ended December 31, 2018, as compared to \$10.3 million for the year ended December 31, 2017. The increase in net investment income was primarily due to the growth in our fixed income portfolio including a re-allocation of \$30 million of equity investments into fixed income securities during the third quarter of 2017. The increase was also due to the improvement in the yield on our fixed income portfolio as a result of portfolio repositioning during the first quarter of 2017, particularly the sale of tax-free municipal bonds, the proceeds of which were reinvested in taxable municipal and corporate fixed income securities with higher coupon rates.

Net Realized and Unrealized Investment Gains (Losses)

Net realized and unrealized investment gains (losses) declined \$12.6 million, to \$(4.1) million for the year ended December 31, 2018, as compared to \$8.5 million for the year ended December 31, 2017. During the year ended December 31, 2018, we recognized \$1.2 million in unrealized investment losses for equity securities and \$2.9 million in net realized losses primarily due to the decision to liquidate certain bond positions, including positions related to tax-free municipal securities. This liquidation was done to reduce exposure in certain bond types as well as consolidate our investment strategy between MNIC's investment securities and the rest of the Company's investment securities, which resulted in us selling out of certain bond and equity positions. We also experienced losses associated with our portfolio managers, under our control, moving out of positions due to both macro and micro conditions, a typical practice each and every quarter. Our prior year investment gains of \$8.5 million were driven by a decision to re-deploy approximately \$30.6 million of equities into fixed-income securities during the third quarter of 2017 in order to reduce the Company's exposure to the equity markets.

As discussed in Note 2 of the notes to our Consolidated Financial Statements, effective January 1, 2018, we began recording all unrealized gains (losses) for equity securities through the income statement instead of through other comprehensive income. This accounting for equity securities creates volatility in our earnings compared to the prior accounting rules.

Direct Written Policy Fees

Direct written policy fees decreased by \$3.8 million, or 22.2%, to \$13.4 million for the year ended December 31, 2018, as compared to \$17.2 million for the year ended December 31, 2017. The decrease in direct written policy fees is correlated to the lower number of policies in-force in Automobile. Additionally, further impacting the decline is the fact that Automobile policies have a higher policy fee amount per premium dollar and generate policy fees twice per year (with six month policies) as compared with Homeowners policies.

Other Income

Other income decreased \$3.0 million, or 13.7%, to \$19.2 million for the year ended December 31, 2018, as compared to \$22.2 million for the year ended December 31, 2017. Other income included the following for the periods presented:

	Year Ended December 31,		
	2018	% Change	2017
	(Dollars in thousands)		
Other income:			
Commission income	\$ 4,649	(25.3)%	\$ 6,227
Brokerage	12,305	4.4 %	11,781
Financing and other revenue	2,200	(47.6)%	4,198
Total other income	<u>\$ 19,154</u>	<u>(13.7)%</u>	<u>\$ 22,206</u>

The decline in other income was driven by lower commission income and financing and other revenue partially offset by higher brokerage revenue. The year over year decreases were driven by lower fee income from Automobile and other fees across the business. The lower fee income from Automobile was due to the reduction in premiums earned for the year ended December 31, 2018, as compared to December 31, 2017.

Expenses

Losses and Loss Adjustment Expenses

Losses and LAE decreased \$19.2 million, or 7.7%, to \$228.4 million for the year ended December 31, 2018, as compared to \$247.6 million for the year ended December 31, 2017. The lower loss ratio was the result of the decrease in the size of Automobile (\$21.2 million lower losses, including adverse development) driven by exiting the line of business.

The expense was also impacted from severe weather (\$31.5 million in the year ended December 31, 2018, impacts of Hurricane Michael, Hurricane Florence and Tropical Storm Gordon, as compared to \$30.4 million in the year December 31, 2017, impacts of Hurricane Irma and Hurricane Harvey).

Commissions and Other Underwriting Expenses

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

	Year Ended December 31,	
	2018	2017
	(In thousands)	
Commissions and other underwriting expenses:		
Homeowners Florida	\$ 56,693	\$ 57,151
All others	19,948	20,135
Ceding commissions	(12,743)	(16,299)
Total commissions and other fees	<u>63,898</u>	<u>60,987</u>
Automobile	4,322	7,847
Homeowners non-Florida	2,147	1,223
Total fees	<u>6,469</u>	<u>9,070</u>
Salaries and wages	14,279	14,521
Other underwriting expenses	36,463	30,289
Total commissions and other underwriting expenses	<u>\$ 121,109</u>	<u>\$ 114,867</u>

Commissions and other underwriting expenses increased \$6.2 million, or 5.4%, to \$121.1 million for the year ended December 31, 2018, as compared to \$114.9 million for the year ended December 31, 2017. The increase was primarily due to higher costs related to the homeowners non-Florida 50% profit share provision (which is recorded within the other underwriting expenses line) as a result of higher profitability in the year ended December 31, 2018 as compared to the year ended December 31, 2017. The higher profitability is the direct result of continued earned premium growth, together with good loss experience in these states. Additionally, we recognized higher homeowners non-Florida commission expense as a result of higher premium earned in 2018. The additional costs were partially offset by lower acquisition related costs from Automobile driven by the lower gross premiums earned during 2018 as compared with 2017.

General and Administrative Expenses

General and administrative expenses increased \$2.2 million, or 11.1%, to \$22.2 million for the year ended December 31, 2018, as compared to \$20.0 million for the year ended December 31, 2017. The increase in general and administrative expenses was primarily due to higher legal and professional fees, including audit, tax and actuarial fees, as well as higher payroll costs as a result of severance related costs. The higher legal and professional fees was partially driven by due diligence costs related to the acquisition of the Maison Companies, as previously announced on February 25, 2019 and further discussed earlier in this Form 10-K.

Interest Expense

Interest expense increased \$3.9 million, or 1,100.3%, to \$4.2 million for the year ended December 31, 2018, as compared to \$0.3 million for the year ended December 31, 2017. The increase in interest expense is the result of the Company issuing \$45.0 million of senior notes, late in December 2017.

Income Taxes

Income taxes increased \$1.9 million, or 53.4%, to \$5.5 million for the year ended December 31, 2018, as compared to \$3.6 million for the year ended December 31, 2017. The increase in income tax expense is the result of higher taxable income during the year ended December 31, 2018, as compared to the year ended December 31, 2017, partially offset by the decrease in the federal corporate tax rate from 35% to 21%, effective January 1, 2018. Refer to Note 9 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for additional information on federal income tax reform.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our primary sources of funds are gross written premiums, investment income, commission income and fee income. Our primary uses of funds are the payment of claims, catastrophe and other reinsurance premiums and operating expenses. As of December 31, 2019, we had \$133.4 million in cash and cash equivalents and \$550.6 million in investments. As of December 31, 2018, we had \$64.4 million in cash and cash equivalents and \$451.5 million in investments. Total shareholders' equity increased \$33.4 million, to \$248.7 million as of December 31, 2019, as compared to \$215.3 million as of December 31, 2018, due primarily to shares issued for the acquisition of the Maison Companies and unrealized gains on our bond portfolio.

Historically, we have met our liquidity requirements primarily through cash generated from operations. On March 5, 2019, the Company closed on an offering of \$100 million of Senior Unsecured Notes due 2029, which bear interest at the annual rate of 7.5%. The net proceeds of the offering were in part used to redeem all \$45 million of the Company's Senior Unsecured Fixed Rate Notes due 2022 and the Company's Senior Notes due 2027. Additionally, the remaining cash from the offering was used to purchase the Maison Companies and for other general corporate purposes, including potential repurchases of shares of our common stock and managing the capital needs of our subsidiaries. Refer to Notes 3 and 8 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for additional information regarding the 2029 Notes as well as the acquisition of the Maison Companies.

Among other things, the 2029 Notes contain customary covenants that limit the Company's ability to enter into certain operational and financial transactions, including, but not limited to incurring additional debt above certain thresholds. The Company's actual debt to capital ratio as of December 31, 2019 was approximately 28%.

Statutory Capital and Surplus of our Insurance Subsidiaries

As described more fully in Part I, Item 1. Business, Regulation of this Annual Report, our insurance operations are subject to the laws and regulations of the states in which we operate. The Florida OIR and their regulatory counterparts in other states utilize the NAIC 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. As of December 31, 2019, FNIC's statutory surplus, which includes MNIC, was \$141.8 million. As of December 31, 2019, MIC's, statutory surplus was \$50.7 million.

Based upon the 2019, 2018 and 2017 statutory financial statements for FNIC, MIC and MNIC, statutory surplus exceeded the regulatory action levels established by the NAIC's RBC requirements.

Based on RBC requirements, the extent of regulatory intervention and action increases as the ratio of an insurer's statutory surplus to its 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 200.0% 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 150.0% 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 70.0% of the ACL amount. FNIC's ratio of statutory surplus to its ACL was 323.9% and 329.9% as of December 31, 2019 and 2018, respectively. MNIC's ratio of statutory surplus to its ACL was 1,128.7% and 774.4% as of December 31, 2019 and 2018, respectively. MIC's ratio of statutory surplus to its ACL was 305.7% as of December 31, 2019.

Cash Flows Discussion

We believe that existing cash and investment balances, when combined with anticipated cash flows and the proceeds of our debt offering as described above, will be adequate to meet our expected liquidity needs in both the short-term and the reasonably foreseeable future. We believe the combined balances will be sufficient to meet our ongoing operating requirements and anticipated cash needs, and satisfy the covenants in our senior notes. Future growth strategies may 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 any such financing would not negatively impact our results of operations. We expect to continue declaring and paying dividends at comparable levels, subject to our future liquidity needs and reserve requirements.

Subject to our compliance with capital requirements as described above, we may consider various opportunities to deploy our capital, including repurchases of our common stock if such repurchases represent a more favorable use of available capital.

Operating Activities

Net cash provided by operating activities increased to \$35.3 million for the year ended December 31, 2019 from \$30.3 million for the year ended December 31, 2018. This increase reflects higher premiums collected, partially offset by higher expenses paid, including those related to net losses and loss adjustment expenses in the year ended December 31, 2019, as compared to prior year.

Net cash provided by operating activities increased to \$30.3 million for the year ended December 31, 2018 from \$13.1 million for the year ended December 31, 2017. This increase primarily reflects higher net premiums collected and lower net loss and loss adjustment expenses paid for the year ended December 2018, as compared to prior year.

Investing Activities

Net cash used in investing activities was \$9.0 million for the year ended December 31, 2019, as compared to \$21.2 million for the year ended December 31, 2018. The change was due to lower purchases of debt securities of \$228.1 million for the year ended December 31, 2019, as compared to \$337.8 million for the year ended December 31, 2018 and net cash acquired from the acquisition of the Maison Companies of \$10.4 million in 2019. This was partially offset by lower proceeds from sales of debt securities of \$164.2 million in the current year, as compared to \$228.8 million in the prior year and lower maturities and redemptions of debt securities of \$43.9 million for the year ended December 31, 2019, as compared to \$92.7 million for the year ended December 31, 2018.

Net cash used in investing activities was \$21.2 million for the year ended December 31, 2018, as compared to \$31.7 million for the year ended December 31, 2017, representing net growth in our investment portfolio each year. The change was due to higher maturities and redemptions of debt securities of \$92.7 million for the year ended December 31, 2018, as compared to \$38.0 million the year ended December 31, 2017, and lower purchases of debt securities of \$337.8 million for the year ended December 31, 2018, as compared to \$339.7 million for the prior year. These changes were partially offset by lower proceeds from sales of equity securities of \$10.6 million for the year ended December 31, 2018, as compared to \$57.1 million for the year ended December 31, 2017.

Financing Activities

Net cash provided by financing activities was \$42.6 million for the year ended December 31, 2019, as compared to net cash used of \$30.9 million for the year ended December 31, 2018. The change was primarily due to proceeds from issuance of long-term debt of \$98.4 million for the year ended December 31, 2019 and the purchase of non-controlling interest of \$16.7 million in the prior year. These changes were partially offset by payment of long-term debt of \$48.0 million for the year ended December 31, 2019, as compared to payment of \$5.0 million in the prior year.

Net cash used by financing activities was \$30.9 million for the year ended December 31, 2018, as compared to net cash provided of \$30.2 million for the year ended December 31, 2017. The change was due payment of long-term debt of \$5 million for the year ended December 31, 2018, as compared to proceeds of \$45.0 million in the prior year, and the purchase of our non-controlling interest of \$16.7 million for the year ended December 31, 2018. These changes were partially offset by lower repurchases of common stock during 2018 compared to 2017.

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, we may be limited in raising premium levels for competitive and regulatory reasons. Inflation may also affect the market value of our investment portfolio and the investment rate of return. Any future economic changes that result in prolonged and increasing levels of inflation could cause increases in the dollar amount of incurred losses and LAE and thereby materially adversely affect future liability requirements.

CONTRACTUAL OBLIGATIONS

The table sets forth a summary of long-term contractual obligations as of December 31, 2019, and includes amounts that represent estimates of gross undiscounted amounts payable over time, as follows:

	Payments Due By Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
	(In thousands)				
Loss and loss adjustment expense reserves (1)	\$ 324,362	\$ 191,373	\$ 97,309	\$ 19,462	\$ 16,218
Long-term debt (2)	100,000	—	—	—	100,000
Operating leases	9,920	1,028	2,164	2,295	4,433
Total long-term contractual obligations	<u>\$ 434,282</u>	<u>\$ 192,401</u>	<u>\$ 99,473</u>	<u>\$ 21,757</u>	<u>\$ 120,651</u>

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

CRITICAL ACCOUNTING POLICIES

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

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

Fair Value

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

Investments

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

Held-to-maturity debt securities are recorded at the amortized cost, reflecting the ability and intent to hold the securities to maturity. All other debt securities are classified as available-for-sale and recorded at fair value. Unrealized gains and losses during the year, net

of the related tax effect applicable to available-for-sale and periods prior to January 1, 2018 for equity securities, are excluded from income and reflected in other comprehensive income (loss), and the cumulative effect is reported as a separate component of shareholders' equity until realized. If a decline in fair value is deemed to be other-than-temporary, the investment is written down to its fair value and the amount of the write-down is recorded as an OTTI loss on the statement of operations. Any portion of such decline related to debt securities that is believed to arise from factors other than credit is recorded as a component of other comprehensive income rather than against income. As a result of the adoption of Accounting Standards Update ("ASU") 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01") beginning on January 1, 2018 equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are measured at fair value with changes in fair value recognized in net income.

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

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

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

Premiums and Unearned Premiums

We recognize premiums as revenue on a pro-rata basis over the term of an insurance policy. Assumed reinsurance premiums written and earned are based on reports received from ceding companies for pro-rata treaty contracts and are generally recorded as written based on contract terms for excess-of-loss and quota-share contracts. Premiums are earned ratably over the terms of the related coverage.

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

Premium receivable balances are reported net of an allowance for estimated uncollectible premium amounts. Such allowance is based upon an ongoing review of amounts outstanding, length of collection periods, the creditworthiness of the insured and other relevant factors. Amounts deemed to be uncollectible are written off against the allowance.

Reinsurance

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

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

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

Deferred Acquisition Costs and Value of Business Acquired

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

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

The acquisition costs are deferred and amortized over the period in which the related premiums written are earned, generally 12 months. It is grouped consistent with the manner in which the insurance contracts are acquired, serviced and measured for profitability and is reviewed for recoverability based on the profitability of the underlying insurance contracts. Investment income is anticipated in assessing the recoverability of deferred acquisition costs. We assess the recoverability of deferred acquisition costs on an annual basis or more frequently if circumstances indicate impairment may have occurred.

Value of business acquired ("VOBA") is an asset that reflects the estimated fair value of in-force contracts in an acquisition and represents the portion of the purchase price that is allocated to the value of the right to receive future cash flows from the business in-force at the acquisition date. VOBA is amortized over the period in which the related premiums written are earned, generally twelve months or less for property insurance business. VOBA amortization is reported within commissions and other underwriting expenses on our consolidated statements of operations. VOBA is reviewed to ensure that the unamortized portion does not exceed the expected recoverable amount as of October 1, each year, and more frequently if circumstances indicate impairment may have occurred.

Refer to Note 3 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report for information regarding VOBA from the acquisition during the fourth quarter of 2019.

Goodwill and Other Intangible Assets

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

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

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

We apply significant judgment when determining the estimated fair values discussed above. Factors that can influence these values include any items that can directly or indirectly affect future production levels, profitability and cash flows. Examples of unfavorable changes to assumptions or factors that could result in future impairment include, but are not limited to, the following:

- Lower expectations for future production levels or future profitability;
- Higher discount rates;
- Customer acceptance, capital market, legislative, regulatory or tax changes that affect the cost of, or demand for, our products, the required amount of reserves and/or surplus, or otherwise affect our ability to conduct business, including changes to statutory reserve requirements or changes to RBC requirements; and
- Valuations of significant mergers or acquisitions of companies or blocks of business that would provide relevant market-based inputs for our impairment assessment that could support less favorable conclusions regarding the estimated fair value of our reporting unit.

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

Refer to Note 3 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for our goodwill and identifiable intangible assets acquired during the fourth quarter of 2019.

Losses and Loss Adjustment Expenses

Overview

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

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

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

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

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

Our insurance companies provide coverage on both a claims-made and occurrence basis. Claims-made policies generally require that claims occur and be reported during the coverage period of the policy. Occurrence policies allow claims which occur during a policy's coverage period to be reported after the coverage period, and as a result, these claims can have a very long claim tail, occasionally extending for decades. Casualty claims can have a very long claim tail, in certain situations extending for many years. In addition, casualty claims are more susceptible to litigation and the legal environment and can be significantly affected by changing contract interpretations, all of which contribute to extending the claim tail. For long-tail casualty lines of business, estimating the ultimate liabilities for unpaid losses and LAE is a more complex process and depends on a number of factors, including the line and volume of the business involved. For these reasons, our insurance companies will generally use actuarial projections in setting reserves for all casualty lines of business.

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

We believe that the reserves for unpaid losses and LAE established by our insurance companies are adequate as of December 31, 2019; however, additional reserves, which could have a material impact upon our financial condition, results of operations and cash flows, may be necessary in the future.

Methodologies and Assumptions

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

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

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

The primary actuarial assumptions used by insurance companies include the following:

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

In the absence of sufficiently credible internally-derived historical information, each of the above actuarial assumptions may also incorporate data from the insurance industries as a whole, or peer companies writing substantially similar coverages. Data from external sources may be used to set expectations, as well as assumptions regarding loss frequency or severity relative to an exposure unit or claim, among other actuarial parameters. Assumptions regarding the application or composition of peer group or industry reserving parameters require substantial judgment.

Loss Frequency and Severity

Loss frequency and severity are measures of loss activity that are considered in determining the key assumptions described above. Loss frequency is a measure of the number of claims per unit of insured exposure, and loss severity is a measure of the average size of claims. Factors affecting loss frequency include the effectiveness of loss controls and safety programs and changes in economic conditions or weather patterns. Factors affecting loss severity include changes in policy limits, retentions, rate of inflation and judicial interpretations. Another factor affecting estimates of loss frequency and severity is the loss reporting lag, which is the period of time

between the occurrence of a loss and the date the loss is reported to our insurance companies. The length of the loss reporting lag affects their ability to accurately predict loss frequency (loss frequencies are more predictable for lines with short reporting lags), as well as the amount of reserves needed for IBNR. If the actual level of loss frequency and severity is higher or lower than expected, the ultimate losses will be different than management's estimates.

Prior Year Development

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

Refer to Note 1 and Note 7 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for additional information regarding our losses and LAE.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss, capital loss and tax-credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income or expense in the period that includes the enactment date. Such a change occurred in the fourth quarter of 2017. Refer to Note 9 of the notes to our Consolidated Financial Statements set forth in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report, for additional information regarding our income taxes.

Recent Accounting Pronouncements

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

Off-Balance Sheet Transactions

For the years ended December 31, 2019 and 2018, we did not have any off balance sheet transactions.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Our investment policy is established by the Board of Directors' Investment Committee and is reviewed on a regular basis. Pursuant to this investment policy, as of December 31, 2019, approximately 96% of investments were in debt securities and cash and cash equivalents, which are considered to be either held-to-maturity or available-for-sale, based upon our estimates of required liquidity. Approximately 99% of the debt securities are considered available-for-sale and are marked to market. We may in the future consider additional debt securities to be held-to-maturity and carried at amortized cost. We do not use any swaps, options, futures or forward contracts to hedge or enhance our investment portfolio.

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

	2020	2021	2022	2023	2024	Thereafter	Total	Carrying Amount
	(Dollars in thousands)							
Principal amount by expected maturity:								
United States government obligations and authorities	\$ 7,216	\$ 10,772	\$ 15,074	\$ 2,760	\$ 22,786	\$ 29,207	\$ 87,815	\$ 89,308
Obligations of states and political subdivisions	1,950	2,325	6,034	1,164	2,965	8,740	23,178	24,020
Corporate	21,002	32,714	46,323	24,585	26,518	80,233	231,375	240,176
International	5,117	5,422	9,487	1,365	3,007	4,581	28,979	29,806
Collateralized mortgage obligations	1,757	4,519	10,007	42,717	14,903	66,944	140,847	147,292
Total investments	<u>\$ 37,042</u>	<u>\$ 55,752</u>	<u>\$ 86,925</u>	<u>\$ 72,591</u>	<u>\$ 70,179</u>	<u>\$ 189,705</u>	<u>\$ 512,194</u>	<u>\$ 530,602</u>
Weighted average interest rate by expected maturity:								
United States government obligations and authorities	2.08 %	2.30 %	1.68 %	2.26 %	2.50 %	2.00 %	2.12 %	
Obligations of states and political subdivisions	2.31 %	2.85 %	3.09 %	2.98 %	2.41 %	3.29 %	2.98 %	
Corporate securities	3.27 %	3.13 %	3.12 %	3.64 %	3.70 %	3.69 %	3.45 %	
International securities	2.79 %	2.70 %	3.14 %	3.68 %	3.83 %	4.08 %	3.24 %	
Collateralized mortgage obligations	3.09 %	3.53 %	3.04 %	4.06 %	3.73 %	3.54 %	3.68 %	
Total investments	2.91 %	2.95 %	2.86 %	3.82 %	3.27 %	3.37 %	3.25 %	

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of FedNat Holding Company and subsidiaries (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and the financial statement schedules listed in the index at Item 15 (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 6, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

/s/ Ernst & Young LLP

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

Charlotte, North Carolina
March 6, 2020

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

	December 31,	
	2019	2018
ASSETS		
Investments:		
Debt securities, available-for-sale, at fair value (amortized cost of \$512,645 and \$433,664, respectively)	\$ 526,265	\$ 428,641
Debt securities, held-to-maturity, at amortized cost	4,337	5,126
Equity securities, at fair value	20,039	17,758
Total investments	550,641	451,525
Cash and cash equivalents	133,361	64,423
Prepaid reinsurance premiums	145,659	108,577
Premiums receivable, net of allowance of \$159 and \$77, respectively	41,422	29,791
Reinsurance recoverable, net	209,615	211,424
Deferred acquisition costs and value of business acquired, net	56,136	39,436
Income taxes, net	2,552	5,220
Goodwill	10,997	—
Other assets	28,633	14,975
Total assets	<u>\$ 1,179,016</u>	<u>\$ 925,371</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Loss and loss adjustment expense reserves	\$ 324,362	\$ 296,230
Unearned premiums	360,870	281,992
Reinsurance payable	102,467	63,599
Long-term debt, net of deferred financing costs of \$1,478 and \$596, respectively	98,522	44,404
Deferred revenue	6,856	4,585
Other liabilities	37,246	19,302
Total liabilities	<u>930,323</u>	<u>710,112</u>
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: 25,000,000 shares authorized; 14,414,821 and 12,784,444 shares issued and outstanding, respectively	144	128
Additional paid-in capital	167,677	141,128
Accumulated other comprehensive income (loss)	10,281	(3,750)
Retained earnings	70,591	77,753
Total shareholders' equity	<u>248,693</u>	<u>215,259</u>
Total liabilities and shareholders' equity	<u>\$ 1,179,016</u>	<u>\$ 925,371</u>

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

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

	Year Ended December 31,		
	2019	2018	2017
Revenues:			
Net premiums earned	\$ 363,652	\$ 355,257	\$ 333,481
Net investment income	15,901	12,460	10,254
Net realized and unrealized investment gains (losses)	7,084	(4,144)	8,548
Direct written policy fees	10,200	13,366	17,173
Other income	18,124	19,154	22,206
Total revenues	<u>414,961</u>	<u>396,093</u>	<u>391,662</u>
Costs and expenses:			
Losses and loss adjustment expenses	273,080	228,416	247,557
Commissions and other underwriting expenses	107,189	121,109	114,867
General and administrative expenses	23,203	22,183	19,963
Interest expense	10,776	4,177	348
Total costs and expenses	<u>414,248</u>	<u>375,885</u>	<u>382,735</u>
Income (loss) before income taxes	713	20,208	8,927
Income tax expense (benefit)	(298)	5,498	3,585
Net income (loss)	<u>1,011</u>	<u>14,710</u>	<u>5,342</u>
Net income (loss) attributable to non-controlling interest	—	(218)	(2,647)
Net income (loss) attributable to FedNat Holding Company shareholders	<u>\$ 1,011</u>	<u>\$ 14,928</u>	<u>\$ 7,989</u>
Net Income (Loss) Per Common Share			
Basic	\$ 0.08	\$ 1.17	\$ 0.61
Diluted	\$ 0.08	\$ 1.16	\$ 0.60
Weighted Average Number of Shares of Common Stock Outstanding			
Basic	12,977	12,775	13,170
Diluted	13,023	12,867	13,250
Dividends Declared Per Common Share			
	\$ 0.33	\$ 0.24	\$ 0.32

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

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

	Year Ended December 31,		
	2019	2018	2017
Net income (loss)	\$ 1,011	\$ 14,710	\$ 5,342
Change in net unrealized gains (losses) on investments, available-for-sale, net of tax	14,031	(5,444)	(429)
Comprehensive income (loss)	15,042	9,266	4,913
Less: comprehensive income (loss) attributable to non-controlling interest, net of tax	—	(447)	(2,905)
Comprehensive income (loss) attributable to FedNat Holding Company shareholders	\$ 15,042	\$ 9,713	\$ 7,818

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

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

	Preferred Stock	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity Attributable to		Total Shareholders' Equity
		Issued Shares	Amount				FedNat Holding Company Shareholders	Non- Controlling Interest	
Balance as of January 1, 2017	\$ —	13,473,120	\$ 134	\$ 136,779	\$ 1,941	\$ 76,884	\$ 215,738	18,727	\$ 234,465
Net income (loss)	—	—	—	—	—	7,989	7,989	(2,647)	5,342
Other comprehensive income (loss)	—	—	—	—	(171)	—	(171)	(258)	(429)
Dividends declared	—	—	—	—	—	(4,251)	(4,251)	—	(4,251)
Shares issued under share-based compensation plans	—	169,647	—	103	—	—	103	—	103
Repurchases of common stock	—	(654,520)	(4)	—	—	(10,613)	(10,617)	—	(10,617)
Share-based compensation	—	—	—	2,846	—	—	2,846	—	2,846
Balance as of December 31, 2017	—	12,988,247	130	139,728	1,770	70,009	211,637	15,822	227,459
Cumulative effect of new accounting standards	—	—	—	—	(994)	994	—	—	—
Net income (loss)	—	—	—	—	—	14,928	14,928	(218)	14,710
Other comprehensive income (loss)	—	—	—	—	(4,221)	—	(4,221)	(229)	(4,450)
Dividends declared	—	—	—	—	—	(3,120)	(3,120)	—	(3,120)
Acquisition of non-controlling interest	—	—	—	(1,005)	(305)	—	(1,310)	(15,375)	(16,685)
Shares issued under share-based compensation plans	—	122,905	1	38	—	—	39	—	39
Repurchases of common stock	—	(326,708)	(3)	—	—	(5,058)	(5,061)	—	(5,061)
Share-based compensation	—	—	—	2,367	—	—	2,367	—	2,367
Balance as of December 31, 2018	—	12,784,444	128	141,128	(3,750)	77,753	215,259	—	215,259
Net income (loss)	—	—	—	—	—	1,011	1,011	—	1,011
Other comprehensive income (loss)	—	—	—	—	14,031	—	14,031	—	14,031
Dividends declared	—	—	—	—	—	(4,309)	(4,309)	—	(4,309)
Shares issued for acquisition	—	1,773,102	18	24,373	—	—	24,391	—	24,391
Shares issued under share-based compensation plans	—	94,922	1	—	—	—	1	—	1
Repurchases of common stock	—	(237,647)	(3)	—	—	(3,864)	(3,867)	—	(3,867)
Share-based compensation	—	—	—	2,176	—	—	2,176	—	2,176
Balance as of December 31, 2019	\$ —	14,414,821	\$ 144	\$ 167,677	\$ 10,281	\$ 70,591	\$ 248,693	\$ —	\$ 248,693

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

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

	Year Ended December 31,		
	2019	2018	2017
Cash flow from operating activities:			
Net income (loss)	\$ 1,011	\$ 14,710	\$ 5,342
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Net realized and unrealized investment (gains) losses	(7,084)	4,144	(8,548)
Loss (gain) on early extinguishment of debt	3,575	—	—
Amortization of investment premium or discount, net	916	1,546	3,909
Depreciation and amortization	1,477	1,385	1,166
Share-based compensation	2,176	2,367	2,846
Changes in operating assets and liabilities:			
Prepaid reinsurance premiums	(11,803)	26,915	21,440
Premiums receivable, net	(8,654)	16,602	8,461
Reinsurance recoverable, net	9,412	(86,823)	(76,738)
Deferred acquisition costs and value of business acquired, net	(7,979)	1,457	999
Income taxes, net	(3,723)	6,109	4,403
Deferred revenue	756	(1,637)	(612)
Loss and loss adjustment expense reserves	11,472	65,715	72,405
Unearned premiums	28,365	(12,431)	401
Reinsurance payable	14,797	(8,345)	(7,210)
Other	602	(1,444)	(15,158)
Net cash provided by (used in) operating activities	<u>35,316</u>	<u>30,270</u>	<u>13,106</u>
Cash flow from investing activities:			
Proceeds from sales of debt securities	164,196	228,777	249,584
Proceeds from sales of equity securities	9,203	10,639	57,125
Maturities and redemptions of debt securities	43,925	92,744	38,038
Purchases of debt securities	(228,132)	(337,776)	(339,667)
Purchases of equity securities	(6,565)	(13,542)	(35,811)
Payment for acquisition, net of cash acquired	10,402	—	—
Purchases of property and equipment	(2,040)	(2,026)	(976)
Net cash provided by (used in) investing activities	<u>(9,011)</u>	<u>(21,184)</u>	<u>(31,707)</u>
Cash flow from financing activities:			
Proceeds from issuance of long-term debt, net of issuance costs	98,390	—	45,000
Payment of long-term debt and prepayment penalties	(48,000)	(5,000)	—
Purchase of non-controlling interest	—	(16,685)	—
Purchases of FedNat Holding Company common stock	(3,449)	(5,061)	(10,616)
Issuance of common stock for share-based awards	1	39	103
Dividends paid	(4,309)	(4,184)	(4,251)
Net cash provided by (used in) financing activities	<u>42,633</u>	<u>(30,891)</u>	<u>30,236</u>
Net increase (decrease) in cash and cash equivalents	<u>68,938</u>	<u>(21,805)</u>	<u>11,635</u>
Cash and cash equivalents at beginning-of-period	64,423	86,228	74,593
Cash and cash equivalents at end-of-period	<u>\$ 133,361</u>	<u>\$ 64,423</u>	<u>\$ 86,228</u>

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

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

	Year Ended December 31,		
	2019	2018	2017
Supplemental disclosure of cash flow information:			
Cash paid (received) during the period for interest	\$ 4,860	\$ 4,266	\$ 308
Cash paid (received) during the period for income taxes	\$ 3,504	\$ (1,104)	\$ (354)
Significant non-cash investing and financing transactions:			
Right-of-use asset	\$ (8,096)	\$ —	\$ —
Lease liability	\$ 8,096	\$ —	\$ —

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

FedNat Holding Company and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2019

1. ORGANIZATION, CONSOLIDATION AND BASIS OF PRESENTATION

Organization

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

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

Maison Insurance Company (“MIC”), an insurance subsidiary, is licensed as an admitted carrier to write homeowners property and casualty insurance as well as wind/hail-only exposures by the state’s insurance departments in Louisiana, Texas and Florida.

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 the Company’s homeowners insurance products to consumers in Florida. As a percentage of the total homeowners premiums we underwrote, 23.2%, 23.8% and 23.8%, were from Allstate’s network of Florida agents, for the years ended December 31, 2019, 2018 and 2017, respectively.

SageSure Insurance Managers, LLC

The Company is a party to a managing general underwriting agreement with SageSure Insurance Managers, LLC (“SageSure”) to facilitate growth in our FNIC homeowners business outside of Florida. As a percentage of the total homeowners premiums, 23.1%, 15.0% and 10.2% respectively, of the Company’s premiums were underwritten by SageSure, for the years ended December 31, 2019, 2018, and 2017 respectively. As part of our partnership with SageSure, we entered into a profit share agreement, whereby we share 50% of net profits of this line of business, as calculated per the terms of the agreement, subject to certain limitations. The profit share cost is reflected in commissions and underwriting expenses on our consolidated statement of operations.

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.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2019

We completed our acquisition of MNIC in February 2018 by acquiring the membership interests in MNIC's indirect parent, Monarch Delaware Holdings LLC ("Monarch Delaware"), held by our joint venture partners. As such, the Company consolidated Monarch Delaware in its consolidated financial statements. In accordance with the accounting standard on consolidation, a primary beneficiary that acquires additional ownership of the previously controlled and consolidated subsidiaries is accounted for as an equity transaction and re-measurement of assets and liabilities of previously controlled and consolidated subsidiaries is not permitted. As a result, we accounted for this transaction by eliminating the carrying value of the non-controlling interest to reflect our 100% ownership interest in MNIC as of February 21, 2018. The difference between the consideration paid and the amount by which the non-controlling interest was eliminated has been recognized in additional paid-in capital. Following the closing, Monarch Delaware and Monarch Holdings were merged into MNIC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

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

Business Combinations

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

Fair Value

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

Refer to Note 4 below for additional information regarding fair value.

Investments

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

Held-to-maturity debt securities are recorded at the amortized cost, reflecting the ability and intent to hold the securities to maturity. All other debt securities are classified as available-for-sale and recorded at fair value. Unrealized gains and losses during the year, net of the related tax effect applicable to available-for-sale and periods prior to January 1, 2018 for equity securities, are excluded from

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2019

income and reflected in other comprehensive income (loss), and the cumulative effect is reported as a separate component of shareholders' equity until realized. If a decline in fair value is deemed to be other-than-temporary, the investment is written down to its fair value and the amount of the write-down is recorded as an other-than-temporary impairment ("OTTI") loss on the statement of operations. Any portion of such decline related to debt securities that is believed to arise from factors other than credit is recorded as a component of other comprehensive income rather than against income. As a result of the adoption of Accounting Standards Update ("ASU") 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01") beginning on January 1, 2018 equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are measured at fair value with changes in fair value recognized in net income. Refer to Note 2 below for additional information related to ASU 2016-01.

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

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

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

Refer to Note 5 below for additional information regarding investments.

Cash and Cash Equivalents

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

Premiums and Unearned Premiums

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

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

Premium receivable balances are reported net of an allowance for estimated uncollectible premium amounts. Such allowance is based upon an ongoing review of amounts outstanding, length of collection periods, the creditworthiness of the insured and other relevant factors. Amounts deemed to be uncollectible are written off against the allowance.

Reinsurance

Reinsurance is used to mitigate the exposure to losses, manage capacity and protect capital resources. Reinsuring loss exposures does not relieve a ceding entity from its obligations to policyholders and cedants. Reinsurance recoverables (including amounts related to claims incurred but not reported) and ceded unearned premiums are reported as assets. To minimize exposure to losses from a reinsurer's inability to pay, the financial condition of such reinsurer is evaluated initially upon placement of the reinsurance and periodically thereafter. In addition to considering the financial condition of the reinsurer, the collectability of the reinsurance recoverables is evaluated (and where appropriate, whether an allowance for estimated uncollectible reinsurance recoverables is to be established) based upon a number of other factors. Such factors include the amounts outstanding, length of collection periods, disputes, any collateral or letters of credit held and other relevant factors. To the extent that an allowance for uncollectible reinsurance recoverable is established, amounts deemed to be uncollectible are written off against the allowance for estimated uncollectible reinsurance recoverables. As of December 31, 2019 and 2018, the Company did not have any allowances for uncollectible reinsurance recoverables.

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

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

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

Deferred Acquisition Costs and Value of Business Acquired

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

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

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

Value of business acquired ("VOBA") is an asset that reflects the estimated fair value of in-force contracts in an acquisition and represents the portion of the purchase price that is allocated to the value of the right to receive future cash flows from the business in-force at the acquisition date. VOBA is amortized over the period in which the related premiums written are earned, generally twelve months or less for property insurance business. VOBA amortization is reported within commissions and other underwriting expenses on our consolidated statements of operations. VOBA is reviewed to ensure that the unamortized portion does not exceed the expected recoverable amount as of October 1 and more frequently if circumstances indicate impairment may have occurred.

Refer to Note 3 below for information regarding VOBA from the acquisition during the fourth quarter of 2019.

Goodwill

We recognize the excess of the purchase price, plus the fair value of any non-controlling interest in the acquiree, over the fair value of identifiable net assets acquired at the acquisition date as goodwill. Goodwill is not amortized but is reviewed for impairment annually as of October 1 and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. We perform a quantitative goodwill impairment test where the fair value of the reporting unit is determined and compared to the carrying value of the reporting unit. If the fair value of the reporting unit is greater than the reporting unit's carrying value, then the carrying value of the reporting unit is deemed to be recoverable. If the carrying value of the reporting unit is greater than the reporting unit's fair value, goodwill is impaired and written down to the reporting unit's fair value; and a charge is reported in impairment of intangibles on our consolidated statements of operations.

Refer to Note 3 below for information regarding goodwill acquired during the fourth quarter of 2019.

Other Assets

Other assets consist primarily of identifiable intangible assets, property and equipment owned, right-of-use assets for our long-term leases, receivables resulting from sales of securities that had not yet settled as of the balance sheet date and prepaid expenses.

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

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

We recognize the estimated fair value of identifiable intangibles such as trade names and non-compete agreements acquired through a business combination at the acquisition date. Identifiable intangible assets are amortized on a straight-line basis over their identified useful life, if applicable. The carrying values of identifiable intangible assets are reviewed at least annually for indicators of impairment in value that are other-than-temporary, including unexpected or adverse changes in the following: the economic or competitive environments in which the company operates; profitability analysis; cash flow analysis; and the fair value of the relevant business operation. If there is an indication of impairment, then the discounted cash flow method would be used to measure the impairment, and the carrying value would be adjusted as necessary and reported in impairment of intangibles on our consolidated statements of operations.

Refer to Note 3 below for information regarding identifiable intangible assets acquired during the fourth quarter of 2019.

Direct Written Policy Fees

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

Other Income

Other income represents brokerage, commission related income from the Company's agency operations, fees generated from the personal automobile line of business as well as recognition of equity method investment results. Brokerage income is recognized over the term of the reinsurance period, typically one year. Commission income from agency operations are recognized up-front upon policy inception. The fees associated with the personal automobile line of business are recognized ratably over the related policy term, generally six months. In applying the equity method, the Company records its initial investment at cost, and subsequently increases or decreases the carrying amount of the investment by its proportionate share of the net earnings or losses with any dividends or distributions received are recorded as a decrease in the carrying value of the investment.

Losses and Loss Adjustment Expenses

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

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

Long-Term Debt, Net of Deferred Financing Costs

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

The Company incurs specific incremental costs, other than those paid to lenders, in connection with the issuance of the Company's debt instruments. These deferred financing costs include loan origination costs, issue costs and other direct costs payable to third parties and are recorded as a direct deduction from the carrying value of the associated debt liability in the consolidated balance sheets,

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when the debt liability is recorded. The Company amortizes the deferred financing costs as interest expense over the term of the related debt using the effective interest method in the consolidated statements of operations.

Income Taxes

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

The Company's management makes assumptions, estimates and judgments, which are subject to change, in accounting for income taxes. The Company's management also considers events and transactions on an on-going basis and the laws enacted as of the Company's reporting date. The U.S. Tax Cuts and Jobs Act of 2017 (the "Tax Act") was signed into law on December 22, 2017, and the effect of changes in federal tax law and applicable statutory rates is recorded in the consolidated financial statements in the period of enactment. As such, the Tax Act affected the Company's deferred income tax provision in the consolidated statement of operations for the year ended December 31, 2017 and the deferred income tax assets and liabilities balances in the consolidated balance sheet as of December 31, 2017. Both the current and deferred income tax provisions are affected for 2019 and 2018. Refer to Note 9 below for further information regarding income taxes.

Share-Based Compensation

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

Basic and Diluted Net Income (Loss) per Share

Basic net income per share is computed by dividing net income available to common shareholders by the weighted average number of common shares, while diluted net income per share is computed by dividing net income available to common shareholders by the weighted average number of such common shares and dilutive share equivalents result from the assumed exercise of employee stock options and vesting of restricted common stock and are calculated using the treasury stock method.

Recently Issued Accounting Pronouncements, Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The update replaces all general and most industry specific revenue recognition guidance (excluding insurance) currently prescribed by GAAP. The core principle is that an entity recognizes revenue to reflect the transfer of a promised good or service to customers in an amount that reflects that consideration to which the entity expects to be entitled in exchange for that good or service. The Company adopted this update and the other related revenue standard clarifications and technical guidance effective January 1, 2018, using the modified retrospective approach. The Company completed the analysis of its non-insurance revenues and has concluded that the implementation did not have any impact on the Company's consolidated financial condition or results of operations.

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In January 2016, the FASB issued ASU 2016-01, which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. In February 2018, the FASB issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. Most notably, the combined new guidance required equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The Company adopted the guidance effective January 1, 2018, by reflecting a cumulative adjustment, which increased retained earnings and decreased accumulated other comprehensive income by \$1.0 million. This adjustment represented the level of net unrealized gains and losses associated with our equity investments with readily determinable market values as of January 1, 2018. The adoption also resulted in the recognition of \$(1.2) million in our consolidated statements of operations and statements of comprehensive income (loss), which represented the change in net unrealized gains and losses on our equity securities for 2018. This new guidance increases our earnings volatility compared to the prior accounting rules.

In February 2018, the FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The update allowed a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Job Act of 2017 ("Tax Act"). Guidance had previously required the effect of a change in tax laws or rates on deferred tax balances to be reported in income from continuing operations in the accounting period that includes the period of enactment, even if the related income tax effects were originally charged or credited directly to accumulated other comprehensive income. The Company adopted the guidance effective January 1, 2018, by reflecting a cumulative effect adjustment to retained earnings with an off-setting adjustment to accumulated other comprehensive income for less than \$0.1 million.

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

Refer to Note 10 below for additional information regarding leases.

Recently Issued Accounting Pronouncements, Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which significantly changes the measurement of credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The update requires entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount, as currently performed under the other-than-temporary impairment ("OTTI") model. The update also requires enhanced disclosures for financial assets measured at amortized cost and available-for-sale debt securities to help the financial statement users better understand significant judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. The Company will adopt the guidance effective January 1, 2020, by reflecting a cumulative effect adjustment, which decreased retained earnings, held-to-maturity debt securities and reinsurance recoverable by immaterial amounts. This new guidance increases our earnings volatility compared to the prior accounting rules.

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

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3. ACQUISITIONS

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

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

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

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

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The acquisition date fair values of certain assets and liabilities, including VOBA and intangible assets, are provisional and subject to revision within one year of the acquisition date. As such, our estimates of fair values are pending finalization, which may result in adjustments to goodwill. The following presents (in thousands) the preliminary acquisition date fair values of the net assets acquired related to the Maison Companies as of December 2, 2019:

	December 2, 2019
Assets:	(In thousands)
Debt securities, available-for-sale	\$ 56,929
Cash and cash equivalents	35,968
Prepaid reinsurance premium	25,279
Premiums receivable	2,977
Reinsurance recoverable	7,603
Deferred acquisition costs and value of business acquired, net	8,721
Other assets	3,507
Total assets acquired	140,984
Liabilities:	
Loss and adjustment expense reserves	16,660
Unearned premiums	50,513
Reinsurance payable	24,071
Income taxes, net	1,778
Deferred revenue	1,515
Other liabilities	7,487
Total liabilities assumed	102,024
Net specifically identifiable assets acquired	38,960
Goodwill	10,997
Net assets acquired	\$ 49,957

As of December 31, 2019, we anticipate that all the gross contractual amounts of acquired receivables will be fully collected.

The goodwill recorded as part of the acquisition includes the expected synergies and other benefits that management believes will result from the acquisition including reinsurance savings and reduction in operating and general and administrative expenses.

Value of Business Acquired

The entire \$8.7 million acquired VOBA balance will be amortized by December 31, 2020.

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Identifiable Intangible Assets

The following presents the fair value of identifiable intangible assets acquired as of the acquisition date:

	Fair Value	Weighted- Average Amortization Period
	(In thousands)	(In years)
Trade name (1)	\$ 1,800	—
Non-compete agreements	300	2
Insurance licenses (1)	182	—
Total	<u>\$ 2,282</u>	

(1) These intangibles have an indefinite useful life.

These identifiable intangible assets were estimated using a discounted cash flow method. Significant inputs to the valuation models include estimates of expected premiums, persistency rates, investment returns, claim costs, expenses and discount rates.

The identifiable intangible assets included in other assets on the consolidated balance sheet were:

	As of December 31, 2019	
	Gross Carrying Amount	Accumulated Amortization
	(In thousands)	
Trade name	\$ 1,800	\$ —
Non-competes	300	13
Insurance licenses	182	—
Total	<u>\$ 2,282</u>	<u>\$ 13</u>

Pro Forma Financial Information

The following unaudited pro forma condensed consolidated statements of operations of the Company assume that the acquisition of the Maison Companies was completed on January 1, 2018:

	For the Years Ended	
	2019	2018
	(In thousands)	
Revenue	\$ 60,904	\$ 58,376
Net income (loss)	(8,678)	2,504

Pro forma adjustments include the revenue and net income (loss) of the Maison Companies for each period as well as estimates for amortization of identifiable intangible assets acquired and fair value adjustments associated with investments, VOBA (different than deferred acquisition costs) and reinsurance recoverable. Other pro forma adjustments include the incremental increase to interest expense attributable to financing the acquisition and the impact of reflecting acquisition and integration costs in 2018, instead of 2019.

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4. FAIR VALUE

Fair Value Disclosures of Financial Instruments

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

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

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

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

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Debt securities - available-for-sale, at fair value:				
United States government obligations and authorities	\$ 83,764	\$ 110,429	\$ —	\$ 194,193
Obligations of states and political subdivisions	—	24,020	—	24,020
Corporate securities	—	278,302	—	278,302
International securities	—	29,750	—	29,750
Debt securities, at fair value	<u>83,764</u>	<u>442,501</u>	<u>—</u>	<u>526,265</u>
Equity securities, at fair value	<u>17,361</u>	<u>2,678</u>	<u>—</u>	<u>20,039</u>
Total investments, at fair value	<u>\$ 101,125</u>	<u>\$ 445,179</u>	<u>\$ —</u>	<u>\$ 546,304</u>

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	December 31, 2018			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Debt securities - available-for-sale, at fair value:				
United States government obligations and authorities	\$ 43,918	\$ 83,950	\$ —	\$ 127,868
Obligations of states and political subdivisions	—	9,767	—	9,767
Corporate securities	—	268,731	—	268,731
International securities	—	22,275	—	22,275
Debt securities, at fair value	43,918	384,723	—	428,641
Equity securities, at fair value	16,037	1,721	—	17,758
Total investments, at fair value	\$ 59,955	\$ 386,444	\$ —	\$ 446,399

Held-to-maturity debt securities reported on the consolidated balance sheets at amortized cost and disclosed at fair value below (and in Note 5) and the level of fair value hierarchy of inputs used consisted of the following:

	Level 1	Level 2	Level 3	Total
		(In thousands)		
December 31, 2019	\$ 3,453	\$ 878	\$ —	\$ 4,331
December 31, 2018	3,809	1,155	—	4,964

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.

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.

We did not have securities trading in less liquid or illiquid markets with limited or no pricing information, therefore we did not use unobservable inputs to measure fair value as of December 31, 2019 and 2018. Additionally, we did not have any assets or liabilities

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measured at fair value on a nonrecurring basis as of December 31, 2019 or 2018, and we noted no significant changes in our valuation methodologies between those periods.

There were no changes to the Company's valuation methodology and the Company is not aware of any events or circumstances that would have a significant adverse effect on the carrying value of its assets and liabilities measured at fair value as of December 31, 2019 and 2018. There were no transfers between the fair value hierarchy levels during the years ended December 31, 2019, 2018 and 2017.

5. INVESTMENTS

Unrealized Gains and Losses

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

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
December 31, 2019				
Debt securities - available-for-sale:				
United States government obligations and authorities	\$ 191,546	\$ 3,073	\$ 426	\$ 194,193
Obligations of states and political subdivisions	23,748	294	22	24,020
Corporate	268,182	10,252	132	278,302
International	29,169	593	12	29,750
	<u>512,645</u>	<u>14,212</u>	<u>592</u>	<u>526,265</u>
Debt securities - held-to-maturity:				
United States government obligations and authorities	3,585	12	39	3,558
Corporate	697	20	—	717
International	55	1	—	56
	<u>4,337</u>	<u>33</u>	<u>39</u>	<u>4,331</u>
Total investments, excluding equity securities	<u>\$ 516,982</u>	<u>\$ 14,245</u>	<u>\$ 631</u>	<u>\$ 530,596</u>

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
December 31, 2018				
Debt securities - available-for-sale:				
United States government obligations and authorities	\$ 127,928	\$ 1,091	\$ 1,151	\$ 127,868
Obligations of states and political subdivisions	9,870	27	130	9,767
Corporate	273,192	510	4,971	268,731
International	22,674	12	411	22,275
	<u>433,664</u>	<u>1,640</u>	<u>6,663</u>	<u>428,641</u>
Debt securities - held-to-maturity:				
United States government obligations and authorities	\$ 4,085	\$ 1	\$ 158	\$ 3,928
Corporate	986	2	6	982
International	55	—	1	54
	<u>5,126</u>	<u>3</u>	<u>165</u>	<u>4,964</u>
Total investments, excluding equity securities	<u>\$ 438,790</u>	<u>\$ 1,643</u>	<u>\$ 6,828</u>	<u>\$ 433,605</u>

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Net Realized and Unrealized Gains and Losses

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

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

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Gross realized and unrealized gains:			
Debt securities	\$ 2,829	\$ 423	\$ 1,814
Equity securities	5,928	2,374	9,944
Total gross realized and unrealized gains	<u>8,757</u>	<u>2,797</u>	<u>11,758</u>
Gross realized and unrealized losses:			
Debt securities	(664)	(3,990)	(1,671)
Equity securities	(1,009)	(2,951)	(1,539)
Total gross realized and unrealized losses	<u>(1,673)</u>	<u>(6,941)</u>	<u>(3,210)</u>
Net realized and unrealized gains (losses) on investments	<u>\$ 7,084</u>	<u>\$ (4,144)</u>	<u>\$ 8,548</u>

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

	Year Ended December 31,	
	2019	2018
	(In thousands)	
Net realized and unrealized gains (losses)	\$ 4,919	\$ (577)
Less:		
Net realized and unrealized gains (losses) on securities sold	672	732
Net unrealized gains (losses) still held as of the end-of-period	<u>\$ 4,247</u>	<u>\$ (1,309)</u>

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Contractual Maturity

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

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

	December 31, 2019	
	Amortized	
	Cost	Fair Value
	(In thousands)	
Securities with Maturity Dates		
Debt securities, available-for-sale:		
One year or less	\$ 22,642	\$ 22,703
Over one through five years	210,100	214,405
Over five through ten years	135,374	141,094
Over ten years	144,529	148,063
	512,645	526,265
Debt securities, held-to-maturity:		
One year or less	330	331
Over one through five years	3,833	3,824
Over five through ten years	69	71
Over ten years	105	105
	4,337	4,331
Total	\$ 516,982	\$ 530,596

Net Investment Income

Net investment income consisted of the following:

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Interest income	\$ 15,605	\$ 12,253	\$ 9,776
Dividends income	296	207	478
Net investment income	\$ 15,901	\$ 12,460	\$ 10,254

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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, 2019						
Debt securities - available-for-sale:						
United States government obligations and authorities	\$ 49,833	\$ 409	\$ 2,218	\$ 17	\$ 52,051	\$ 426
Obligations of states and political subdivisions	6,810	22	—	—	6,810	22
Corporate	15,872	94	7,694	38	23,566	132
International	3,856	10	179	2	4,035	12
	<u>76,371</u>	<u>535</u>	<u>10,091</u>	<u>57</u>	<u>86,462</u>	<u>592</u>
Debt securities, held-to-maturity:						
United States government obligations and authorities	—	—	2,287	39	2,287	39
Corporate	—	—	—	—	—	—
International	—	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>2,287</u>	<u>39</u>	<u>2,287</u>	<u>39</u>
Total investments, excluding equity securities	<u>\$ 76,371</u>	<u>\$ 535</u>	<u>\$ 12,378</u>	<u>\$ 96</u>	<u>\$ 88,749</u>	<u>\$ 631</u>

	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(In thousands)						
December 31, 2018						
Debt securities - available-for-sale:						
United States government obligations and authorities	\$ 22,673	\$ 246	\$ 29,727	\$ 905	\$ 52,400	\$ 1,151
Obligations of states and political subdivisions	3,254	18	4,786	112	8,040	130
Corporate	160,361	3,058	53,232	1,913	213,593	4,971
International	15,608	217	4,678	194	20,286	411
	<u>201,896</u>	<u>3,539</u>	<u>92,423</u>	<u>3,124</u>	<u>294,319</u>	<u>6,663</u>
Debt securities, held-to-maturity:						
United States government obligations and authorities	229	1	3,113	157	3,342	158
Corporate	591	6	90	—	681	6
International	54	1	—	—	54	1
	<u>874</u>	<u>8</u>	<u>3,203</u>	<u>157</u>	<u>4,077</u>	<u>165</u>
Total investments, excluding equity securities	<u>\$ 202,770</u>	<u>\$ 3,547</u>	<u>\$ 95,626</u>	<u>\$ 3,281</u>	<u>\$ 298,396</u>	<u>\$ 6,828</u>

December 31, 2018

Debt securities - available-for-sale:

United States government obligations and authorities	\$ 22,673	\$ 246	\$ 29,727	\$ 905	\$ 52,400	\$ 1,151
Obligations of states and political subdivisions	3,254	18	4,786	112	8,040	130
Corporate	160,361	3,058	53,232	1,913	213,593	4,971
International	15,608	217	4,678	194	20,286	411
	<u>201,896</u>	<u>3,539</u>	<u>92,423</u>	<u>3,124</u>	<u>294,319</u>	<u>6,663</u>
Debt securities, held-to-maturity:						
United States government obligations and authorities	229	1	3,113	157	3,342	158
Corporate	591	6	90	—	681	6
International	54	1	—	—	54	1
	<u>874</u>	<u>8</u>	<u>3,203</u>	<u>157</u>	<u>4,077</u>	<u>165</u>
Total investments, excluding equity securities	<u>\$ 202,770</u>	<u>\$ 3,547</u>	<u>\$ 95,626</u>	<u>\$ 3,281</u>	<u>\$ 298,396</u>	<u>\$ 6,828</u>

As of December 31, 2019, the Company held a total of 203 debt securities that were in an unrealized loss position, of which 24 securities were in an unrealized loss position continuously for 12 months or more. As of December 31, 2018, the Company held a total of 1,222 debt securities that were in an unrealized loss position, of which 371 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.

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The Company holds some of its debt securities as available-for-sale and as such, these securities are recorded at fair value. The Company continually monitors the difference between cost and the estimated fair value of its investments, which involves uncertainty as to whether declines in value are temporary in nature. If the decline of a particular investment is deemed temporary, the Company records the decline as an unrealized loss in shareholders' equity. If the decline is deemed to be other than temporary, the Company will write the security's cost-basis or amortized cost-basis down to the fair value of the investment and recognizes an OTTI loss in the Company's consolidated statement of operations. Additionally, any portion of such decline related to debt securities that is believed to arise from factors other than credit will be recorded as a component of other comprehensive income rather than charged against income. The Company did not have any OTTI losses on its available-for-sale securities for the years ended December 31, 2019, 2018 and 2017, respectively.

As discussed in Note 2 above, beginning January 1, 2018, the Company's equity investments are measured at fair value through net income (loss). The Company did not have any OTTI losses on its equity securities for the year ended December 31, 2017.

Collateral Deposits

Cash and cash equivalents and investments, the majority of which were debt securities, with fair values of \$11.2 million and \$10.3 million were deposited with governmental authorities and into custodial bank accounts as required by law or contractual obligations, as of December 31, 2019 and 2018, respectively.

6. REINSURANCE

Overview

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

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

Significant Reinsurance Contracts

2018-2019 Excess of Loss Reinsurance Programs

With the February 21, 2018 acquisition of the minority interests of MNIC, the Company combined both FNIC and MNIC under a single program allowing the Company to capitalize on efficiencies and scale. FNIC and MNIC's combined 2018-2019 reinsurance program cost \$148.8 million. This amount included \$102.7 million for the private reinsurance for the Company's exposure, including prepaid automatic premium reinstatement protection, along with \$46.1 million payable to the FHCF. The combination of private and FHCF reinsurance treaties affords FNIC and MNIC \$1.8 billion of aggregate coverage with a maximum single event coverage totaling \$1.3 billion, exclusive of retentions. Both FNIC and MNIC maintained their FHCF participation at 75% for the 2018 hurricane season. FNIC's single event pre-tax retention for a catastrophic event in Florida is \$20.0 million, up slightly from the 2017-2018 reinsurance program and MNIC's single event pre-tax retention for a catastrophic event is \$3.0 million, down slightly from the 2017-2018 reinsurance program.

The combined FNIC and MNIC private market excess of loss treaties, covering both Florida and non-Florida exposures, became effective July 1, 2018 and all private layers have prepaid automatic reinstatement protection, which afforded the Company additional coverage for subsequent events. These private market excess of loss treaties structure coverage into layers, with a cascading feature such that substantially all layers attach after \$20.0 million in losses for FNIC and after \$3.0 million in losses for MNIC. If the aggregate limit of the preceding layer is exhausted, the next layer drops down (cascades) in its place. Additionally, any unused layer protection drops down for subsequent events until exhausted. Given market conditions, FNIC elected not to purchase any multiple year protection and terminated the second year of the \$89.0 million of multiple year protection that FNIC purchased in 2017 on a two-year basis. FNIC also had \$156.0 million of multiple year protection that expired on June 30, 2018. The overall reinsurance programs are with reinsurers that currently have an A.M. Best or Standard & Poor's rating of "A-" or better, or have fully collateralized their maximum potential obligations in dedicated trusts.

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FNIC's non-Florida excess of loss reinsurance treaties afforded us an additional \$23.0 million of aggregate coverage with first event coverage totaling \$5.0 million and second event coverage totaling \$18.0 million, with the incremental \$13.0 million of second event coverage applying to hurricane losses only. The end result is a non-Florida retention of \$15.0 million for the first event and \$2.0 million for the second event though these retentions are reduced to \$7.5 million and \$1.0 million after taking into account the profit sharing agreement that FNIC has with the nonaffiliated managing general underwriter that writes FNIC non-Florida property business. FNIC's non-Florida reinsurance program cost included \$2.0 million for this private reinsurance, including prepaid automatic premium reinstatement protection.

2019-2020 Catastrophe Excess of Loss Reinsurance Program

Given the December 2, 2019 acquisition of the Maison Companies, the Company and PIH agreed to combine FNIC, MNIC, and MIC under a single reinsurance program allowing the carriers to capitalize on efficiencies, spread of risk and scale.

The combined reinsurance treaties provide approximately \$1.3 billion of single-event reinsurance coverage in excess of a \$27 million retention for catastrophic losses on the first event (and \$15 million on the second and third events), including hurricanes, and aggregate coverage of \$1.9 billion, at an approximate total cost of \$224.1 million, of which FNIC's and MNIC's share of the cost is estimated to total \$179.3 million.

The combined FNIC, MIC and MNIC private market excess of loss treaties, covering both Florida and non-Florida exposures, became effective July 1, 2019 and all private layers have prepaid automatic reinstatement protection, which affords the carriers additional coverage for subsequent events. This private market excess of loss treaty structure breaks coverage into layers, with a cascading feature such that substantially all layers attach after \$20 million in losses for FNIC, \$2 million in losses for MNIC and \$5 million in losses for MIC. For FNIC and MNIC, the second and third event attaches at \$10 million per event, on a combined basis. If the aggregate limit of the preceding layer is exhausted, the next layer drops down (cascades) in its place. Additionally, any unused layer protection drops down for subsequent events until exhausted. The overall reinsurance program is with reinsurers that currently have an A.M. Best Company or Standard & Poor's rating of "A-" or better, or have fully collateralized their maximum potential obligations in dedicated trusts.

As indicated above, FNIC, MIC and MNIC's combined 2019-2020 reinsurance program is estimated to cost \$224.1 million. This amount includes approximately \$178.9 million for private reinsurance for the carriers' exposure described above, including prepaid automatic premium reinstatement protection, along with approximately \$45.2 million payable to the FHCF. The combination of private and FHCF reinsurance treaties affords FNIC, MNIC, and MIC approximately \$1.9 billion of aggregate coverage with a maximum single event coverage totaling approximately \$1.3 billion, exclusive of retentions. Each carrier will pay directly its allocated portion of the aggregate reinsurance ceded premium cost. The allocation methodology by which FNIC, MNIC, and MIC determines their share of the premium and distribution of reinsurance recoveries under the combined reinsurance tower is based on catastrophe loss modeling of the separate books of business. 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. Both FNIC and MNIC maintained their FHCF participation at 75% for the 2019 hurricane season, and MIC increased its FHCF participation to 90%.

FNIC's non-Florida excess of loss reinsurance treaty affords us an additional \$18 million of coverage for a second event, which applies to hurricane losses only. The result is a non-Florida retention of \$20 million for FNIC for the first event and \$2 million for the second event, although these retentions are reduced to \$10 million and \$1 million after taking into account the profit-sharing agreement that FNIC has with the non-affiliated managing general underwriter that writes FNIC's non-Florida property business. FNIC's non-Florida reinsurance program cost for the above specific coverage approximates \$1.8 million for this private reinsurance.

The insurance carriers' cost and amounts of reinsurance are based on current analysis of exposure to catastrophic risk. The data is subjected to exposure level analysis at various dates through December 31, 2019. This analysis of the carriers' exposure level 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's reinsurance programs also include quota-share treaties. One such treaty for 30% became effective July 1, 2014, and another for 10% became effective on July 1, 2015 with each running for two years. The combined treaties provided up to a 40% quota-share reinsurance on covered losses for the homeowners' property and liability insurance program in Florida. The treaties are accounted for

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as retrospectively rated contracts whereby the estimated ultimate premium or commission is recognized over the period of the contracts.

On July 1, 2016, the 30% quota-share treaty expired on a cut-off basis, which means as of that date the Company retained an incremental 30% of its unearned premiums and losses. On July 1, 2017, the 10% quota-share treaty expired on a cut-off basis, which means as of that date we retained an incremental 10% of the underlying unearned premiums and losses. The reinsurers remain liable for the paid losses occurring during the terms of the treaties, until each treaty is commuted.

On July 1, 2017, FNIC bound a 10% quota-share on its Florida homeowners book of business, which excluded named storms, subject to certain limitations. This treaty is not subject to accounting as a retrospectively rated contract. This treaty expired on July 1, 2018 on a cut-off basis, meaning that the reinsurer will not be liable (under this agreement) for losses as a result of occurrences taking place after the date of termination, and the unearned premium previously ceded was returned to FNIC.

On July 1, 2018, FNIC renewed the quota-share treaty on its Florida homeowners book of business, on an in-force, new and renewal basis, excluding named storms, which was initially set at a 2% cession, and is subject to certain limitations. In addition, this quota-share allowed FNIC to prospectively increase or decrease the cession percentage up to three times during the term of the agreement. Effective October 1, 2018, FNIC elected to increase the cession percentage from 2% to 10% on an in-force, new and renewal basis.

The treaty expired on July 1, 2019 on a cut-off basis, meaning that the reinsurer will not be liable (under this agreement) for losses as a result of occurrences taking place after the date of termination, and the unearned premium previously ceded was returned to FNIC.

On July 1, 2019, FNIC renewed the quota-share treaty on its Florida homeowners book of business, on an in-force, new and renewal basis, excluding named storms, which was set at a 10% cession and is subject to certain limitations. In addition, this quota-share allows FNIC the flexibility to prospectively increase or decrease the cession percentage up to three times during the term of the agreement.

The Company's private passenger automobile quota-share treaties are programs which became effective at different points in the year and cover auto policies across several states.

Associated Trust Agreements

Certain reinsurance agreements require FNIC to secure the credit, regulatory and business risk. Fully funded trust agreements securing these risks totaled less than \$0.1 million as of December 31, 2019 and 2018.

Reinsurance Recoverable, Net

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

	December 31,	
	2019	2018
	(In thousands)	
Reinsurance recoverable on paid losses	\$ 45,186	\$ 45,028
Reinsurance recoverable on unpaid losses	164,429	166,396
Reinsurance recoverable, net	<u>\$ 209,615</u>	<u>\$ 211,424</u>

As of December 31, 2019 and 2018, the Company had reinsurance recoverable of \$163.7 million and \$183.5 million, respectively, as a result of Hurricane Michael and Irma. All reinsurers in our excess-of-loss reinsurance programs have an A.M. Best or Standard & Poor's rating of "A-" or better, or have fully collateralized their maximum potential obligations in dedicated trusts.

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Net Premiums Written and Net Premiums Earned

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

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Net Premiums Written			
Direct	\$ 610,608	\$ 567,764	\$ 603,417
Ceded	(232,729)	(202,732)	(260,524)
	<u>\$ 377,879</u>	<u>\$ 365,032</u>	<u>\$ 342,893</u>
Net Premiums Earned			
Direct	\$ 582,334	\$ 580,020	\$ 603,193
Ceded	(218,682)	(224,763)	(269,712)
	<u>\$ 363,652</u>	<u>\$ 355,257</u>	<u>\$ 333,481</u>

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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 IBNR.

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

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Gross reserves, beginning-of-period	\$ 296,230	\$ 230,515	\$ 158,110
Less: reinsurance recoverable (1)	(166,396)	(98,345)	(40,412)
Net reserves, beginning-of-period	129,834	132,170	117,698
Net reserves from Maison acquisition	11,825	—	—
Incurring loss, net of reinsurance, related to:			
Current year	262,118	231,133	245,545
Prior year loss development (2)	13,460	2,166	13,926
Ceded losses subject to offsetting experience account adjustments (3)	(2,489)	(4,883)	(11,914)
Prior years	10,971	(2,717)	2,012
Amortization of acquisition fair value adjustment	(9)	—	—
Total incurred loss and LAE, net of reinsurance	273,080	228,416	247,557
Paid loss, net of reinsurance, related to:			
Current year	173,313	155,462	160,945
Prior years	81,493	75,290	72,140
Total paid loss and LAE, net of reinsurance	254,806	230,752	233,085
Net reserves, end-of-period	159,933	129,834	132,170
Plus: reinsurance recoverable (1)	164,429	166,396	98,345
Gross reserves, end-of-period	<u>\$ 324,362</u>	<u>\$ 296,230</u>	<u>\$ 230,515</u>

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

During the year ended December 31, 2018, the Company experienced \$2.2 million of unfavorable loss and LAE reserve development on prior accident years, primarily in our personal automobile and homeowners line of business. The unfavorable automobile

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development primarily related to the 2016 accident year in the state of Georgia. The homeowners unfavorable development primarily related to the continued impact from assignment of benefits ("AOB") and related litigation costs in the state of Florida.

As previously disclosed, 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.

During the year ended December 31, 2017, the Company experienced unfavorable loss and LAE reserve development on prior accident years primarily in its all other peril homeowners coverage in Florida. In the first half of 2016, the Company began to experience a new and higher level of AOB claims both in frequency and severity in our homeowners business in Florida, which caused adverse experience on the loss activity in accident years 2015 and 2016. This increased level of AOB claims was the significant driver in the Company's decision to increase the Company's 2015 accident year reserves related to the Company's homeowners Florida policies.

AOB is a legal construct that allows a third party to step into the shoes of the insured and is then paid directly by an insurance company for services rendered on behalf of the insured for a covered loss. Absent an AOB, the insured would pay the third party and those costs would be reimbursed by the insurance company to the insured. AOB is commonly used when a homeowner experiences a water loss, for example a leaky pipe, an overflow from a sink, or a damaged appliance, and contacts a contractor or water remediation company.

Misuse of this legal construct has led to contractors over inflating costs of claims and/or submitting improper claims, causing insurance companies to have to either pay the overinflated claim, fight the claim in court, or both. In all cases, AOB claims cost the insurance company, on average, more than five times the cost to settle non-AOB claims, which has been a primary driver the increase to our overall loss and loss adjustment in comparison to historical severity averages.

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

Accident Year	Homeowners Incurred Losses and ALAE, Net of Reinsurance											IBNR & Expected	Cumulative
	For the Years Ended December 31,											Development on	Number of
	(Unaudited)											Reported Claims	Reported Claims (1)
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		2019	
2010	\$ 24,825	\$ 25,056	\$ 26,151	\$ 27,895	\$ 28,968	\$ 29,407	\$ 29,945	\$ 30,459	\$ 30,602	\$ 30,651	\$	66	2,393
2011		20,492	21,344	23,007	23,932	24,582	25,957	26,143	26,394	26,394		33	2,429
2012			23,032	23,301	24,186	24,468	25,889	26,356	26,836	26,951		63	2,694
2013				43,807	42,021	35,834	35,859	37,185	37,880	37,978		102	3,434
2014					64,312	63,300	61,770	62,206	61,817	62,043		144	7,657
2015						99,497	92,411	95,129	94,760	94,703		887	13,227
2016							171,264	162,043	158,764	157,880		4,709	24,219
2017								202,844	192,769	188,548		5,228	67,237
2018									210,158	213,128		9,975	36,555
2019										245,819		58,908	17,670
									Total	<u>\$ 1,084,095</u>			

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

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Homeowners Cumulative Paid Losses and ALAE, Net of Reinsurance

For the Years Ended December 31,

Accident Year	(Unaudited)									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
2010	\$ 14,052	\$ 21,350	\$ 24,730	\$ 26,886	\$ 27,984	\$ 29,092	\$ 29,739	\$ 30,376	\$ 30,449	\$ 30,585
2011		11,119	19,250	21,323	22,723	24,047	25,580	25,982	26,287	26,340
2012			13,693	20,728	23,120	23,923	25,186	26,113	26,777	26,861
2013				19,986	31,606	33,867	35,123	35,803	37,473	37,688
2014					37,033	53,831	57,891	59,722	60,555	61,441
2015						52,214	79,359	86,647	90,415	92,327
2016							102,556	142,716	148,274	152,258
2017								135,589	176,580	179,327
2018									141,173	194,160
2019										157,768
										\$ 958,755
										Acquired balance from acquisition
										11,825
										All outstanding liabilities for unpaid claims and ALAE prior to 2010, net of reinsurance
										3
										Total outstanding liabilities for unpaid claims and ALAE, net of reinsurance
										\$ 137,168

The following table provides supplementary information about the average annual percentage payout of incurred losses and ALAE, net of reinsurance, for homeowners policies, as of December 31, 2019:

Average Annual Payout of Losses and ALAE, Net of Reinsurance

(Unaudited)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Homeowners	59.5 %	23.8 %	4.5 %	3.3 %	2.4 %	3.1 %	1.5 %	1.2 %	0.2 %	0.5 %

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2019

Accident Year	Commercial General Liability Incurred Losses and ALAE, Net of Reinsurance										IBNR & Expected	Cumulative
	For the Years Ended December 31,										Development on	Number of
	(Unaudited)										Reported Claims	Reported Claims
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2019	2019
2010	\$ 8,552	\$ 7,582	\$ 7,474	\$ 7,045	\$ 7,535	\$ 7,597	\$ 7,645	\$ 7,809	\$ 8,252	\$ 8,401	\$ 106	761
2011		6,436	5,854	4,749	4,603	4,760	5,409	6,254	6,828	7,817	81	1,224
2012			5,279	4,952	4,801	4,700	4,658	4,346	4,509	5,109	94	712
2013				7,095	5,069	5,221	5,502	5,704	5,580	5,984	125	670
2014					7,475	7,709	6,384	6,620	6,348	6,697	149	761
2015						8,082	7,008	6,020	5,377	7,947	584	783
2016							10,727	5,809	6,561	8,502	858	743
2017								8,289	7,853	6,558	2,345	577
2018									6,553	6,233	4,395	388
2019										1,604	789	78
										Total	\$ 64,852	

Accident Year	Commercial General Liability Cumulative Paid Losses and ALAE, Net of Reinsurance												
	For the Years Ended December 31,												
	(Unaudited)												
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019			
2010	\$ 1,187	\$ 2,279	\$ 3,855	\$ 5,553	\$ 6,363	\$ 7,238	\$ 7,382	\$ 7,631	\$ 7,918	\$ 8,165			
2011		764	2,763	3,366	3,673	4,246	4,866	5,831	6,349	7,365			
2012			871	1,714	2,632	3,342	3,686	3,841	4,098	4,521			
2013				882	2,233	3,366	3,867	4,606	5,033	5,467			
2014					717	2,593	3,855	4,375	5,130	6,270			
2015						798	2,296	3,249	3,827	5,866			
2016							1,515	3,657	5,088	6,606			
2017								1,592	2,478	3,293			
2018									963	1,554			
2019												147	
										Total	\$	49,254	
												1,416	
												Total outstanding liabilities for unpaid claims and ALAE, net of reinsurance	\$ 17,014

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2019

The following table provides supplementary information about the average annual percentage payout of incurred losses and ALAE, net of reinsurance, for commercial general liability policies, as of December 31, 2019:

Average Annual Payout of Losses and ALAE, Net of Reinsurance
(Unaudited)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Commercial general liability	13.2 %	17.7 %	13.9 %	10.5 %	11.4 %	8.6 %	6.0 %	5.1 %	7.3 %	3.5 %

Automobile Incurred Losses and ALAE, Net of Reinsurance
For the Years Ended December 31,

Accident Year	(Unaudited)										IBNR & Expected	Cumulative
											Development on	Number of
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Reported Claims	Reported Claims
2010	\$ 2,823	\$ 2,963	\$ 3,111	\$ 3,088	\$ 3,044	\$ 3,035	\$ 3,059	\$ 3,041	\$ 3,042	\$ 3,042	\$ —	969
2011		3,580	3,350	2,954	2,912	2,762	2,848	2,796	2,756	2,762	—	789
2012			1,735	1,741	1,717	1,424	1,455	1,491	1,448	1,444	1	822
2013				1,517	1,863	1,826	1,829	2,161	2,123	2,127	5	3,471
2014					2,038	3,213	3,551	4,315	4,379	4,417	10	6,015
2015						3,045	2,882	2,781	2,878	2,915	8	6,538
2016							13,414	20,205	24,346	25,918	21	56,541
2017								20,411	22,472	24,579	243	42,064
2018									3,513	4,623	600	7,975
2019										(3)	1	92
									Total	\$ 71,824		

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2019

Automobile Cumulative Paid Losses and ALAE, Net of Reinsurance

For the Years Ended December 31,

(Unaudited)

Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
2010	\$ 1,713	\$ 2,482	\$ 2,715	\$ 2,863	\$ 2,942	\$ 2,978	\$ 2,984	\$ 3,035	\$ 3,037	\$ 3,037	
2011		1,417	2,381	2,562	2,644	2,726	2,755	2,755	2,755	2,755	
2012			867	1,293	1,333	1,384	1,393	1,430	1,444	1,447	
2013				907	1,609	1,906	2,069	2,109	2,112	2,116	
2014					1,455	3,120	3,678	4,122	4,291	4,383	
2015						1,393	2,293	2,670	2,807	2,890	
2016							8,084	17,258	23,053	25,582	
2017								12,821	20,762	23,860	
2018									2,331	3,626	
2019										(5)	
									Total	\$ 69,691	
										All outstanding liabilities for unpaid claims and ALAE prior to 2010, net of reinsurance	9
										Total outstanding liabilities for unpaid claims and ALAE, net of reinsurance	\$ 2,142

The following table provides supplementary information about the average annual percentage payout of incurred losses and ALAE, net of reinsurance, for automobile policies, as of December 31, 2019:

Average Annual Payout of Losses and ALAE, Net of Reinsurance

(Unaudited)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Automobile	40.9 %	31.4 %	14.9 %	7.9 %	2.6 %	1.4 %	0.2 %	0.7 %	— %	— %

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2019

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

	December 31,	
	2019	2018
	(In thousands)	
Liabilities for unpaid losses and ALAE:		
Homeowners	\$ 137,168	\$ 102,279
Commercial general liability	17,014	18,888
Automobile	2,142	4,374
Flood	—	—
Total liabilities for unpaid losses and ALAE, net of reinsurance	156,324	125,541
Reinsurance recoverables:		
Homeowners	160,578	158,043
Commercial general liability	500	—
Automobile	3,228	8,275
Flood	123	78
Total reinsurance recoverables	164,429	166,396
Unallocated loss adjustment expenses	3,609	4,293
Gross liability for unpaid losses and LAE	\$ 324,362	\$ 296,230

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

Various actuarial methods are utilized to determine the reserves that are booked to our financial statements. Weightings of tests and methods at a detailed level may change from evaluation to evaluation based on a number of observations, measures and time elements. On an overall basis, changes to methods and/or assumptions underlying reserve estimations and selections as of December 31, 2019 and 2018, were not considered material.

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

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

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2019

8. LONG-TERM DEBT

Long-term debt consisted of the following:

	December 31,	
	2019	2018
	(In thousands)	
Senior unsecured fixed rate notes, due March 15, 2029, net of deferred financing costs of \$1,478 and \$0, respectively	\$ 98,522	\$ —
Senior unsecured floating rate notes, due December 31, 2027, net of deferred financing costs of \$0 and \$348, respectively	—	24,652
Senior unsecured fixed rate notes, due December 31, 2022, net of deferred financing costs of \$0 and \$248, respectively	—	19,752
Total long-term debt, net	<u>\$ 98,522</u>	<u>\$ 44,404</u>

As of December 31, 2019, the Company's estimated annual aggregate amount of debt maturities includes the following:

For the Years Ending December 31,	Aggregate Debt Maturities
	(In thousands)
2020	\$ —
2021	—
2022	—
2023	—
2024	—
Thereafter	100,000
Total debt maturities	<u>100,000</u>
Less: deferred financing costs	1,478
Total debt maturities, net	<u>\$ 98,522</u>

Senior Unsecured Notes

On March 5, 2019, the Company completed a private placement offering and issued \$100.0 million in principal amount of Senior Unsecured Fixed Rate Notes due 2029 (the "Notes"), pursuant to an indenture dated as of March 5, 2029 (the "Indenture"). The Notes mature on March 15, 2029 and bear interest at a fixed rate of 7.5% per year, payable semi-annually in arrears, subject to increases in the interest rate payable in the event of a downgrade in the credit rating assigned to the Notes. The Notes are not convertible or exchangeable for any equity securities, other securities or assets of the Company or any subsidiary. A portion of the cash from the offering was used to redeem all \$45.0 million of the Company's Senior Unsecured Fixed Rate Notes Due 2022 and the Company's Senior Notes Due 2027. We recognized \$3.6 million as interest expense in our consolidated statements of operations for the year ended 2019, for prepayment fees, including the write-off unamortized debt issuance costs on the repayment.

The Company may redeem the Notes under certain circumstances as set forth in the Indenture. Prior to March 15, 2024, the Company may redeem the Notes, in whole or in part, at a redemption price equal to 100.00% of the principal amount of the Notes to be redeemed, plus the "Applicable Premium," plus accrued and unpaid interest on such Notes, if any, on the Notes redeemed, to the applicable redemption date. The "Applicable Premium" is defined in the Indenture to mean, with respect to any Note on any applicable redemption date, the greater of (1) 1.0% of the then-outstanding principal amount of such Note and (2) the excess (if any) of: (A) the present value at such redemption date of (i) the applicable redemption price of such Note at March 15, 2024 (excluding any accrued but unpaid interest), plus (ii) all required interest payments due on such Note through March 15, 2024 (excluding accrued but

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2019

unpaid interest), computed using a discount rate equal to the Treasury Rate (as defined in the Indenture) on such redemption date plus 50 basis points; over (B) the then-outstanding principal amount of such Note.

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

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

The Notes are senior unsecured obligations of the Company and will rank equally with all of the Company's other future senior unsecured indebtedness. The Indenture includes customary covenants and events of default. Among other things, the covenants restrict the ability of the Company and its subsidiaries to incur additional indebtedness or make restricted payments, including dividends, and under certain circumstances, the Company is required to maintain certain levels of reinsurance coverage while the Notes remain outstanding, and maintain certain other financial covenants. These covenants are subject to important exceptions and qualifications set forth in the Indenture. Principal and interest on the Notes are subject to acceleration in the event of certain events of default, including automatic acceleration upon certain bankruptcy-related events.

9. INCOME TAXES

The components of income tax expense include the following:

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Federal:			
Current	\$ (982)	\$ 5,162	\$ 2,431
Deferred	567	(751)	810
Federal income tax expense (benefit)	(415)	4,411	3,241
State:			
Current	241	1,383	494
Deferred	(124)	(296)	(150)
State income tax expense (benefit)	117	1,087	344
Total income tax expense (benefit)	\$ (298)	\$ 5,498	\$ 3,585

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2019

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

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Computed expected tax expense provision, at federal rate	\$ 150	\$ 4,244	\$ 3,124
State tax, net of federal tax benefit	(122)	761	187
Tax-exempt interest	(3)	(134)	(429)
Income subject to dividends-received deduction	(34)	(13)	(76)
Return to provision	(307)	158	329
Rate changes	—	—	297
Executive compensation	230	436	185
Meals and entertainment	43	28	76
Uncertain tax position	(203)	—	—
Other	(52)	18	(108)
Total income tax expense (benefit)	\$ (298)	\$ 5,498	\$ 3,585

Our effective income tax rate is the ratio of income tax expense (benefit) over our income (loss) before income taxes. For the years ended December 31, 2019, 2018 and 2017, the effective income tax rate was (41.8)%, 27.2% and 40.2%, respectively. Differences in the effective tax and the statutory Federal income tax rate of 21% in 2019 and 2018 and 35% in 2017, are driven by state income taxes and anticipated annual permanent differences, including estimates for tax-exempt interest, dividends received deduction, executive compensation and other items.

The Tax Act made broad and complex changes to the U.S. tax code, including, but not limited to reducing the U.S. federal corporate tax rate from 35% to 21%. In connection with the Company’s analysis of the impact of the Tax Act, the Company recorded a discrete provisional net tax expense of \$0.3 million for the year ended December 31, 2017. This estimated net expense primarily consists of the U.S. federal rate reduction from 35% to 21% applied to the net deferred tax asset. During 2018, the impact of the Tax Legislation was not adjusted from the Company's preliminary estimates. The accounting for income tax effects of the Tax Legislation has been completed.

The Company does not have a valuation allowance on its deferred income tax asset as of December 31, 2019 and 2018.

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

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Balance at January 1	\$ 585	\$ 585	\$ 585
Increases/(decreases) for tax positions taken during the prior years	(203)	—	—
Balance at December 31	\$ 382	\$ 585	\$ 585

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2019

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

	As of December 31,	
	2019	2018
	(In thousands)	
Deferred income tax assets:		
Unearned premiums	\$ 10,232	\$ 9,977
Unpaid losses and loss adjustment expenses	1,596	958
Accrued expenses	216	832
Net operating loss carryforwards	2,095	1,714
Deferred revenue	—	236
Share-based compensation	161	255
Unrealized losses on investment securities	—	1,254
Lease liability	1,655	—
Other	23	21
Total deferred income tax assets	<u>15,978</u>	<u>15,247</u>
Deferred income tax liabilities:		
Deferred acquisition costs and other	(12,703)	(11,198)
Depreciation and amortization	(1,679)	(577)
Unrealized gains on investment securities	(3,270)	—
Lease asset	(1,655)	—
Other	(257)	(273)
Total deferred income tax liabilities	<u>(19,564)</u>	<u>(12,048)</u>
Deferred income tax asset (liability), net	<u>\$ (3,586)</u>	<u>\$ 3,199</u>

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

The Company files a federal income tax return and various state and local tax returns. The Company's consolidated federal and state income tax returns for 2016 - 2018 are open for review by the Internal Revenue Service and other state taxing authorities.

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

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2019

advice of legal counsel, the expected outcome of litigation and legal proceedings or other dispute resolution proceedings or the expected resolution of contingencies. The Company's management believes that the Company's accruals for probable and estimable losses are reasonable and that the amounts accrued do not have a material effect on the Company's consolidated financial statements.

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

Assessment Related Activity

The Company operates in a regulatory environment where certain entities and organizations have the authority to require us to participate in assessments. Currently these entities and organizations include: Florida Insurance Guaranty Association ("FIGA"), Citizens Property Insurance Corporation ("Citizens"), FHCF, Florida Automobile Joint Underwriters Association ("JUA"), Georgia Insurers Insolvency Pool ("GIIP"), Special Insurance Fraud Fund ("SIIF"), Fair Access to Insurance Requirements Plan ("FAIRP"), Georgia Automobile Insurance Plan ("GAIP"), Property Insurance Association of Louisiana ("PIAL"), Louisiana Automobile Insurance Plan ("LAIP"), South Carolina Property & Casualty Insurance Guaranty Association ("SCPCIGA"), Texas Property and Casualty Insurance Guaranty Association ("TPCIGA"), Texas Windstorm Insurance Association ("TWIA"), Texas Automobile Insurance Plan Association ("TAIPA"), Alabama Insurance Guaranty Association ("AIGA"), and Alabama Insurance Underwriters Association ("AIUA"). As a direct premium writer in Florida, we are required to participate in certain insurer solvency associations under Florida law, administered by FIGA.

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, 2019. Future assessments by the JUA and the JUA Plan are indeterminable at this time.

Leases

The Company is committed under various operating lease agreements for office space. FNHC and its subsidiaries lease certain facilities, furniture and equipment under long-term lease agreements. Rental expense for the years ended December 31, 2019, 2018 and 2017 was \$1.0 million, \$0.7 million and \$0.6 million, respectively.

Future minimum lease payments under these agreements are as follows:

Year Ended December 31,	Aggregate Minimum Lease Payments
	(In thousands)
2020	\$ 1,028
2021	1,066
2022	1,098
2023	1,131
2024	1,164
Thereafter	4,433
Total	\$ 9,920

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.

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Notes to Consolidated Statements (Continued)
December 31, 2019

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

	December 31, 2019
	(In thousands)
Right-of-use asset	\$ 8,096
Accrued rent	(317)
Right-of-use asset, net	<u>\$ 7,779</u>
Lease liability	\$ 8,096
Weighted average discount rate	4.70 %
Weighted average remaining years of lease term	8.7
	Year Ended December 31, 2019
	(In thousands)
Lease expense	\$ 1,046
Sublease income	(229)
Lease expense, net	<u>\$ 817</u>
Net cash provided by (used in) operating activities	\$ (573)

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

Refer to Note 2 above for additional information regarding the implementation of new lease accounting rules on January 1, 2019.

11. SHAREHOLDERS' EQUITY

Common Stock Repurchases

The Company may repurchase shares in open market transactions in accordance with Rule 10b-18 or under Rule 10b5-1 of the Exchange Act from time to time in its discretion, based on ongoing assessments of the Company's capital needs, the market price of its common stock and general market conditions. The amount and timing of all repurchase transactions are contingent upon market conditions, applicable legal requirements and other factors.

In December 2017, the Company's Board of Directors authorized an additional share repurchase program under which the Company may repurchase up to \$10.0 million (plus \$0.8 million remaining from previous authorization which was fully expended as of March 31, 2018) of its outstanding shares of common stock through December 31, 2018. The unused portion of this authorization expired on December 31, 2018.

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

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Notes to Consolidated Statements (Continued)
December 31, 2019

In December 2019, the Company's Board of Directors authorized a new share repurchase program under which the Company may repurchase up to \$10 million of its outstanding shares of common stock from January 1, 2020 through December 31, 2020. As of December 31, 2019, the remaining availability for future repurchases of our common stock under this program was \$10.0 million.

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. No securities have been offered or sold under this registration statement.

Stock Compensation Plan

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

Share-Based Compensation Expense

Share-based compensation arrangements include the following:

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Restricted stock	\$ 1,841	\$ 2,134	\$ 2,639
Performance stock	335	233	207
Total share-based compensation expense	<u>\$ 2,176</u>	<u>\$ 2,367</u>	<u>\$ 2,846</u>
Recognized tax benefit	\$ 534	\$ 600	\$ 1,098
Intrinsic value of options exercised	\$ 2	\$ 229	\$ 371
Fair value of restricted stock vested	\$ 1,977	\$ 2,360	\$ 2,328

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

The unamortized share-based compensation expense is \$2.8 million as of December 31, 2019, which will be recognized over the remaining weighted average vesting period of approximately 1.68 years.

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Notes to Consolidated Statements (Continued)
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Stock Option Awards

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

	Number of Shares	Weighted Average Option Exercise Price
Outstanding at January 1, 2017	79,484	\$ 3.70
Granted	—	—
Exercised	(29,133)	3.68
Cancelled	—	—
Outstanding at December 31, 2017	50,351	3.72
Granted	—	—
Exercised	(10,834)	3.47
Cancelled	(500)	2.45
Outstanding at December 31, 2018	39,017	3.80
Granted	—	—
Exercised	(167)	2.45
Cancelled	—	—
Outstanding at December 31, 2019	38,850	\$ 3.80

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

Options Outstanding and Exercisable				
Range of Exercise Price	Shares Outstanding and Exercisable	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$2.45 - \$4.40	38,850	1.89	\$3.80	495,541

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

During the years ended December 31, 2019 and 2018, the Board of Directors granted 140,156 and 133,060 RSAs, respectively, vesting over three or five years, to the Company's directors, executives and other key employees.

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2019

RSA activity includes the following:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2017	337,203	\$ 19.69
Granted	106,454	17.95
Vested	(140,514)	16.57
Cancelled	(5,600)	19.80
Outstanding at December 31, 2017	297,543	20.54
Granted	133,060	16.31
Vested	(112,071)	21.06
Cancelled	(56,198)	17.87
Outstanding at December 31, 2018	262,334	18.78
Granted	140,156	18.03
Vested	(94,755)	20.87
Cancelled	(52,390)	17.66
Outstanding at December 31, 2019	<u>255,345</u>	<u>\$ 17.82</u>

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

Accumulated Other Comprehensive Income (Loss)

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

	Year Ended December 31,					
	2019			2018		
	Before Tax	Income Tax	Net	Before Tax	Income Tax	Net
	(In thousands)					
Accumulated other comprehensive income (loss), beginning-of-period	\$ (5,023)	\$ 1,273	\$ (3,750)	\$ 2,287	\$ (593)	\$ 1,694
Cumulative effect of new accounting standards	—	—	—	(1,349)	355	(994)
Other comprehensive income (loss) before reclassification	20,809	(5,144)	15,665	(8,747)	2,217	(6,530)
Reclassification adjustment for realized losses (gains) included in net income	(2,165)	531	(1,634)	2,786	(706)	2,080
	<u>18,644</u>	<u>(4,613)</u>	<u>14,031</u>	<u>(5,961)</u>	<u>1,511</u>	<u>(4,450)</u>
Accumulated other comprehensive income (loss), end-of-period	<u>\$ 13,621</u>	<u>\$ (3,340)</u>	<u>\$ 10,281</u>	<u>\$ (5,023)</u>	<u>\$ 1,273</u>	<u>\$ (3,750)</u>

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2019

12. EMPLOYEE BENEFIT PLAN

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

For the years ended December 31, 2019 and 2018, the Company made no additional profit-sharing contribution.

The Company's total contributions to the 401(K) Plan were \$0.9 million, \$1.0 million and \$0.8 million for the years ended December 31, 2019, 2018 and 2017, respectively.

13. RELATED PARTY TRANSACTIONS

Related to an equity method investment in Southeast Catastrophe Consulting Company, LLC, based in Mobile, Alabama, the Company recorded claims adjustment service fees and other expenses of \$6.7 million and \$17.0 million for the years ended December 31, 2018 and 2017, respectively. Additionally, the Company recognized other income in the consolidated statements of operations, of \$0.3 million, \$0.3 million, \$2.0 million for the years ended December 31, 2019, 2018 and 2017, respectively.

14. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income 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 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 exercise of common stock options and the vesting of RSAs using the treasury stock method. Common stock equivalents are not included in diluted earnings per share when their inclusion is antidilutive.

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

	Year Ended December 31,		
	2019	2018	2017
	(In thousands, except per share data)		
Net income (loss) attributable to FedNat Holding Company shareholders	\$ 1,011	\$ 14,928	\$ 7,989
Weighted average number of common shares outstanding - basic	12,977	12,775	13,170
Net income (loss) per common share - basic	<u>\$0.08</u>	<u>\$1.17</u>	<u>\$0.61</u>
Weighted average number of common shares outstanding - basic	12,977	12,775	13,170
Dilutive effect of stock compensation plans	46	92	80
Weighted average number of common shares outstanding - diluted	<u>13,023</u>	<u>12,867</u>	<u>13,250</u>
Net income (loss) per common share - diluted	<u>\$ 0.08</u>	<u>\$ 1.16</u>	<u>\$ 0.60</u>
Dividends per share	<u>\$ 0.33</u>	<u>\$ 0.24</u>	<u>\$ 0.32</u>

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2019

Dividends Declared

In January 2019, our Board of Directors declared a \$0.08 per common share dividend, payable in March 2019, to shareholders of record on February 14, 2019, amounting to \$1.0 million.

In May 2019, our Board of Directors declared a \$0.08 per common share dividend, payable in June 2019, to shareholders of record on May 14, 2019, amounting to \$1.1 million.

In July 2019, our Board of Directors declared a \$0.08 per common share dividend, payable in September 2019, to shareholders of record on August 16, 2019, amounting to \$1.0 million.

In November 2019, our Board of Directors declared a \$0.09 per common share dividend, payable in December 2019, to shareholders of record on November 15, 2019, amounting to \$1.2 million.

In February 2020, our Board of Directors declared a \$0.09 per common share dividend, payable in March 2020, to shareholders of record on February 14, 2020, amounting to \$1.3 million.

15. STATUTORY ACCOUNTING AND DIVIDEND RESTRICTIONS

The Company's insurance companies are subject to regulations and standards of the Florida Office of Insurance Regulation (the "Florida OIR") and Louisiana Department of Insurance (the "LDI"). These standards require that insurance companies prepare statutory-basis financial statements in accordance with the National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures Manual. The Company did not use any prescribed or permitted statutory accounting practices that differed from the NAIC's statutory accounting practices as of December 31, 2019.

The Company's insurance companies are required to report their risk-based capital ("RBC") each December 31. Failure to maintain an adequate RBC could subject the Company to regulatory action and could restrict the payment of dividends. As of December 31, 2019, the RBC levels of the Company's insurance companies did not subject them to any regulatory action.

Additionally, Florida Statutes require the Company's Florida domiciled insurance companies to maintain specified levels of statutory capital and restrict the timing and amount of dividends and other distributions that may be paid to the parent company. These standards require dividends to be paid only from statutory unassigned surplus. The maximum dividend that may be paid by the Company's insurance companies to their parent company, without prior regulatory approval is limited to the lesser of statutory net income from operations of the preceding calendar year, not including realized capital gains, plus a 2 years carryforward or 10.0% of statutory unassigned surplus as of the preceding year end. A dividend may also be taken without prior regulatory approval if (a) the dividend is equal to or less than the greater of (i) 10.0% of the insurer's surplus as to policyholders derived from realized net operating profits on its business and net realized capital gains; or (ii) the insurer's entire net operating profits and realized net capital gains derived during the immediately preceding calendar year; (b) the insurer will have surplus as to policyholders equal to or exceeding 115 percent of the minimum required statutory surplus as to policyholders after the dividend or distribution is made; and (c) the insurer has filed notice with the Florida OIR at least 10 business days prior to the dividend payment or distribution, or such shorter period of time as approved by the Florida OIR on a case-by-case basis. These dividends are referred to as "ordinary dividends." However, if a dividend, together with other dividends paid within the preceding 12 months, exceeds this statutory limit or is paid from sources other than earned surplus, the entire dividend is generally considered an "extraordinary dividend" and must receive prior regulatory approval before such dividend can be paid.

With respect to the Company's Louisiana domiciled insurer, Louisiana law restricts a domestic insurer from declaring and paying any dividends to its stockholders unless its capital is fully paid in cash and is unimpaired and it has a surplus beyond its capital stock and the initial minimum surplus required and all other liabilities equal to fifteen percent of its capital stock, provided that this restriction shall not apply when an insurer's paid-in capital and surplus exceeds the minimum required by Louisiana law by one hundred percent or more. No extraordinary dividend or other extraordinary distribution to its shareholders may be made until 30 days after the commissioner of insurance has received notice of the declaration thereof and has not within that period disapproved the payment, or has approved the payment within the thirty-day period. An extraordinary dividend or distribution includes any dividend or distribution of cash or other property, whose fair market value together with that of other dividends or distributions made within the preceding twelve months exceeds the lesser of (a) 10.0% percent of the insurer's surplus as regards policyholders as of the 31st day of December next preceding; or (b) the net income, not including realized capital gains, for the twelve-month period ending the 31st day of December next preceding, but shall not include pro rata distributions of any class of the insurer's own securities. In determining

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2019

whether a dividend or distribution is extraordinary, an insurer may carry forward net income from the previous two calendar years that has not already been paid out as dividends. This carryforward shall be computed by taking the net income from the second and third preceding calendar years, not including realized capital gains, less dividends paid in the second and immediate preceding calendar years. Notwithstanding the foregoing, an insurer may declare an extraordinary dividend or distribution which is conditional upon regulatory approval, and the declaration shall confer no rights upon shareholders until either the payment is approved or has not been disapproved within the 30-day period referred to above.

As of December 31, 2019 and 2018, on a combined statutory basis, the capital and surplus of the Company's insurance companies was \$192.5 million and \$161.7 million, respectively. Combined statutory operational results of the Company's insurance companies was a net loss of \$36.8 million, net income of \$2.9 million and net loss of \$19.6 million for the years ended December 31, 2019, 2018 and 2017, respectively. Statutory capital and surplus exceeds amounts necessary to satisfy regulatory requirements.

16. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

A summary of the Company's unaudited quarterly results of operations includes the following:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)			
2019				
Net premiums earned	\$ 88,784	\$ 92,306	\$ 87,374	\$ 95,188
Total revenue	\$ 101,197	\$ 105,301	\$ 99,476	\$ 108,987
Losses and loss adjustment expenses	\$ 66,839	\$ 65,340	\$ 62,105	\$ 78,796
Total costs and expenses	\$ 106,435	\$ 95,596	\$ 94,099	\$ 118,118
Net income (loss) attributable to FedNat Holding Company shareholders	\$ (3,865)	\$ 7,110	\$ 4,659	\$ (6,893)
Net income (loss) per share - basic	\$ (0.30)	\$ 0.55	\$ 0.36	\$ (0.51)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)			
2018				
Net premiums earned	\$ 82,109	\$ 83,557	\$ 98,493	\$ 91,098
Total revenue	\$ 93,077	\$ 95,742	\$ 110,832	\$ 96,442
Losses and loss adjustment expenses	\$ 46,071	\$ 47,570	\$ 62,457	\$ 72,318
Total costs and expenses	\$ 83,461	\$ 83,726	\$ 99,862	\$ 108,836
Net income (loss) attributable to FedNat Holding Company shareholders	\$ 7,463	\$ 8,820	\$ 7,950	\$ (9,305)
Net income (loss) per share - basic	\$ 0.58	\$ 0.69	\$ 0.62	\$ (0.73)

FedNat Holding Company and Subsidiaries
Notes to Consolidated Statements (Continued)
December 31, 2019

17. SUBSEQUENT EVENTS

Dividends Declared

Refer to Note 14 above for information related to our dividend declared in February 2020.

Florida Statewide Average Rate Increase

The Company applied for and was approved by the Florida OIR for a statewide average rate increase of 2.8% for FNIC Florida homeowners multiple-peril insurance policies, which became effective for new policies on January 25, 2020 and is expected to become effective for renewal policies on March 15, 2020.

The Company applied for and was approved by the Florida OIR for a statewide average rate increase of 5.1% for FNIC Florida dwelling fire insurance policies, which became effective for new policies on February 25, 2020 and is expected to become effective for renewal policies on April 1, 2020.

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited FedNat Holding Company and subsidiaries' internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, FedNat Holding Company and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

Management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of the Maison Companies, which are included in the 2019 consolidated financial statements of the Company and constituted 14% and 21% of total and net assets, respectively, as of December 31, 2019 and 1% and 134% of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of the Maison Companies.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and the financial statement schedules listed in the index at Item 15 and our report dated March 6, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP

Charlotte, North Carolina
March 6, 2020

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Our evaluation did not include the internal controls of the Maison Companies, which are included in the 2019 consolidated financial statements of the Company and constituted 14% and 21% of total and net assets, respectively, as of December 31, 2019 and 1% and 134% of revenues and net income, respectively, for the year then ended.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2019.

Management's Report on Internal Control over Financial Reporting

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

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

Based on the results of this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2019 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP. We reviewed the results of management's assessment with the Company's Audit Committee. Our independent registered public accounting firm that audited the consolidated financial statements include in this Annual Report, Ernst & Young LLP, has issued an attestation report on the effectiveness of our internal control over financial reporting which appears in Part II, Item 8, "Financial Statements and Supplementary Data" included in this Annual Report.

Changes in Internal Control over Financial Reporting

During the fourth quarter, we implemented our previously disclosed remediation plan for the claims matter that was identified as a material weakness as of our third quarter Form 10-Q filing. We strengthened the level and scope of managerial review of claim payment controls and implemented additional compensating controls to enhance the control environment. During the fourth quarter we completed our testing of the operating effectiveness of the implemented controls and found them to be effective. As a result, the material weakness was successfully remediated during the fourth quarter of 2019. There were no other changes in our internal control over financial reporting that occurred during the year ended December 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness

Our management and our audit committee do not expect that our disclosure controls and procedures or internal control over financial reporting will prevent all errors or all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of the control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control gaps and

instances of fraud have been detected. These inherent limitations include the realities that judgments and decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions.

ITEM 9B. OTHER INFORMATION

None.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is incorporated herein by reference to the applicable information in the Proxy Statement for our 2020 Annual Meeting of Shareholders to be filed with the Commission not later than 120 days after the close of the fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference to the applicable information in the Proxy Statement for our 2020 Annual Meeting of Shareholders to be filed with the Commission not later than 120 days after the close of the fiscal year.

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

The information required by Item 12 is incorporated herein by reference to the applicable information in our Proxy Statement for our 2020 Annual Meeting of Shareholders to be filed with the Commission not later than 120 days after the close of the fiscal year.

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

The information required by Item 13 is incorporated herein by reference to the applicable information in the Proxy Statement for the 2020 Annual Meeting of Shareholders to be filed with the Commission not later than 120 days after the close of the fiscal year.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 is incorporated herein by reference to the applicable information in the Proxy Statement for the 2020 Annual Meeting of Shareholders to be filed with the Commission not later than 120 days after the close of the fiscal year.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 10-K

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

(1) Financial Statements

The following consolidated financial statements of the Company and the reports of independent auditors thereon are filed with this report:

Independent Auditor's Reports

Consolidated Balance Sheets as of December 31, 2019 and 2018

Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017.

Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2019, 2018 and 2017.

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2019, 2018 and 2017.

Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017.

Notes to Consolidated Financial Statements for the years ended December 31, 2019, 2018 and 2017.

(2) Financial Statement Schedules.

The following are included herein under Item 8, Financial Statements and Supplementary Data:

Schedule II, Condensed Financial Information of Registrant

Schedule V, Valuation and Qualifying Accounts

Schedule VI, Supplemental Information Concerning Insurance Operations

(3) Exhibits.

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Exhibit	Filing Date	
2.1	Equity Purchase Agreement dated as of February 25, 2019 among FedNat Holding Company, 1347 Property Insurance Holdings, Inc., Maison Managers, Inc., and Maison Insurance Company, and ClaimCor, LLC	8-K	2.1	February 26, 2019	
3.1	Second Restated Articles of Incorporation of FedNat Holding Company	10-Q	3.1	November 7, 2018	
3.2	Second Amended and Restated Bylaws of FedNat Holding Company	10-Q	3.2	November 7, 2018	
4.1	Description of Registrant's Securities				X
4.2	Indenture dated December 28, 2017 by and among Federated National Holding Company, The Bank of New York Mellon, as Trustee, The Bank of New York Mellon, London Branch, as Paying Agent, and the Bank of New York Mellon SA/NV, Luxembourg Branch, as Registrar	8-K	4.1	January 3, 2018	
4.3	Supplemental Indenture No. 1 dated as of December 28, 2017, regarding Senior Unsecured Floating Rate Notes due 2027	8-K	4.2	January 3, 2018	
4.4	Supplemental Indenture No. 2 dated as of December 29, 2017, regarding Senior Unsecured Floating Rate Notes due 2022	8-K	4.3	January 3, 2018	
4.5	Senior Unsecured Floating Rate Note due 2027	8-K	4.4	January 3, 2018	
4.6	Senior Unsecured Floating Rate Note due 2022	8-K	4.5	January 3, 2018	
4.7	Indenture dated March 5, 2019 between FedNat Holding Company and The Bank of New York Mellon, as Trustee, Paying Agent, and Registrar	8-K	4.1	March 6, 2019	
4.8	Form of Rule 144A Senior Unsecured Note due 2029 (included in Exhibit 4.7)	8-K	4.2	March 6, 2019	
4.9	Form of IAI Senior Unsecured Note due 2029 (included in Exhibit 4.7)	8-K	4.3	March 6, 2019	
4.10	Form of First Supplemental Indenture by and between FedNat Holding Company and The Bank of New York Mellon, as trustee	S-4	4.4	January 16, 2020	
4.11	Form of 7.50% Senior Unsecured Note due 2029 of FedNat Holding Company	S-4	4.5	January 16, 2020	
10.1*	Private Placement Excess Catastrophe Reinsurance Contract effective July 1, 2019 among FedNat Insurance Company, Monarch Insurance Company, Maison Insurance Company and subscribing reinsurers	10-Q	10.1	November 12, 2019	
10.2*	Excess Catastrophe Reinsurance Contract effective July 1, 2019 among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company and subscribing reinsurers	10-Q	10.2	November 12, 2019	
10.3*	Second and Third Event Excess Catastrophe Reinsurance Contract effective July 1, 2019 among FedNat Insurance Company, Monarch National Insurance Company and subscribing reinsurers	10-Q	10.3	November 12, 2019	
10.4*	Net Quota Share Reinsurance Agreement effective July 1, 2019 between FedNat Insurance Company and Swiss Reinsurance America Corporation	10-Q	10.4	November 12, 2019	
10.5*	Non-Florida Property Catastrophe Excess of Loss Reinsurance Contract, effective July 1, 2019, between FedNat Insurance Company and subscribing reinsurers	10-Q	10.5	November 12, 2019	
10.6*	Reinstatement Premium Protection Reinsurance Contract effective July 1, 2019, among FedNat Insurance Company, Monarch National Insurance Company, Maison Insurance Company, and subscribing reinsurers	10-Q	10.6	November 12, 2019	

10.7	Reimbursement Contract between FedNat Insurance Company and The State Board of Administration of Florida (SBA) as administrator of the Florida Hurricane Catastrophe Fund (FHCF), effective June 1, 2019	10-Q	10.1	May 8, 2018	
10.8	Reimbursement Contract between Monarch National Insurance Company and The State Board of Administration of Florida (SBA) as administrator of the Florida Hurricane Catastrophe Fund (FHCF), effective June 1, 2019	10-Q	10.2	May 8, 2018	
10.9*	Administrator Agreement, effective July 1, 2013, between Federated National Insurance Company and SageSure Insurance Managers LLC, as amended				X
10.10	Administrative Services Agreement dated November 1, 2015 between FedNat Underwriters Inc. and SageSure Insurance Managers LLC				X
10.11	Insurance Agency Master Agreement dated February 4, 2013 between Ivantage Select Agency, Inc. and Federated National Underwriters, Inc.	10-Q	10.5	November 6, 2013	
10.12	First Amendment to Insurance Agency Master Agreement dated February 12, 2013 between Ivantage Select Agency, Inc. and Federated National Underwriters, Inc.	10-Q	10.6	November 6, 2013	
10.13	Second Amendment to Insurance Agency Master Agreement dated February 12, 2013 between Ivantage Select Agency, Inc. and Federated National Underwriters, Inc.	10-Q	10.6	May 11, 2015	
10.14*	Third Amendment to Insurance Agency Master Agreement dated August 10, 2018 between Ivantage Select Agency, Inc. and FedNat Underwriters, Inc.				X
10.15+	Confidential Information, Non-Solicitation and Non-Competition Agreement dated as of April 17, 2017 between the Company and Ronald Jordan	10-Q	10.3	May 10, 2017	
10.16+	Change of Control Agreement dated as of April 17, 2017 between the Company and Ronald Jordan	10-Q	10.4	May 10, 2017	
10.17+	2018 Omnibus Incentive Compensation Plan	DEF 14A	Annex B	April 13, 2018	
10.18+	Form of Restricted Stock Grant Summary of the Company (Time-Based Vesting)	8-K	99.2	January 14, 2019	
10.19+	Form of Restricted Stock Grant Summary Agreement of the Company (Performance-Based Vesting)	8-K	99.3	January 14, 2019	
10.20+	Form of Indemnification Agreement between the Company and its directors and executive officers	10-K	10.14	March 17, 2008	
10.21+	Form of Amended and Restated Non-Competition, Non-Disclosure and Non-Solicitation Agreement between the Company and certain employees of the Company	8-K	10.1	August 7, 2013	
10.22+	Second Amended and Restated Employment Agreement dated January 18, 2012 between the Company and Michael H. Braun	8-K	10.1	January 20, 2012	
10.23+	Amendment to Employment Agreement and Restrictive Covenant Agreement effective as of March 17, 2015 between Monarch Delaware Holdings LLC and Michael H. Braun	10-Q	10.3	May 11, 2015	
10.24+	Non-Competition, Non-Disclosure and Non-Solicitation Agreement effective as of March 17, 2015 between Monarch Delaware Holdings LLC and Michael H. Braun	10-Q	10.4	May 11, 2015	
10.25+	Employment Agreement dated January 8, 2019 between the Company and Ronald A. Jordan	8-K	99.1	January 14, 2019	
10.26+	Change of Control Agreement dated as of May 2, 2016 between Federated National Holding Company and Erick Fernandez	10-K	10.31	March 16, 2017	
10.27	Form of Note Purchase Agreement dated February 25, 2019 between FedNat Holding Company and the Purchasers of Senior Unsecured Notes due 2029	8-K	10.2	February 26, 2019	

10.28	Form of Registration Rights Agreement dated March 5, 2019 between FedNat Holding Company and the Note Purchasers	8-K	10.1	March 6, 2019	
10.29	Cooperation Agreement dated August 9, 2019 by and between FedNat Holding Company and Capital Returns Management, LLC.	8-K	10.1	August 12, 2019	
10.30	Consent Order dated August 7, 2019 among the Florida Office of Insurance Regulation, FedNat Holding Company, 1347 Property Insurance Holding, Inc., and Maison Insurance Company	8-K	10.1	August 13, 2019	
10.31	Consent Agreement dated August 9, 2019 among the Louisiana Department of Insurance, FedNat Holding Company and Maison Insurance Company.	8-K	10.2	August 13, 2019	
10.32	Registration Rights Agreement dated December 2, 2019 between FedNat Holding Company and 1347 Property Insurance Holdings, Inc.	8-K	10.1	December 2, 2019	
10.33	Standstill Agreement dated December 2, 2019 between FedNat Holding Company and 1347 Property Insurance Holdings, Inc.	8-K	10.2	December 2, 2019	
10.34	Reinsurance Capacity Right of First Refusal Agreement dated December 2, 2019 between FedNat Holding Company and 1347 Property Insurance Holdings, Inc.	8-K	10.3	December 2, 2019	
10.35	Investment Advisory Agreement dated December 2, 2019 between Fundamental Global Advisors LLC and FedNat Holding Company	8-K	10.4	December 2, 2019	
21.1	Subsidiaries of the Company				X
23.1	Consent of Independent Registered Public Accounting Firm				X
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act				X
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act				X
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act				X
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act				X
101.INS**	Inline XBRL Instance Document.				X
101.SCH**	Inline XBRL Taxonomy Extension Schema Document.				X
101.CAL**	Inline XBRL Taxonomy Extension Calculation Linkbase Document.				X
101.DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB**	Inline XBRL Taxonomy Extension Label Linkbase Document.				X
101.PRE**	Inline XBRL Taxonomy Extension Presentation Linkbase Document.				X
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)				X

+ Indicates a Management Compensation Plan or Arrangement

* Portions of this exhibit have been omitted from this exhibit in accordance with and as permitted by Item 601(b)(10)(iv) of Regulation S-K.

** In accordance with Rule 406T of Regulation S-T, these interactive data files are deemed not filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Index to Financial Statement Schedules

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ITEM 16. FORM 10-K SUMMARY

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K report to be signed on its behalf by the undersigned, thereto duly authorized.

FEDNAT HOLDING COMPANY

By: /s/ Michael H. Braun
Michael H. Braun, Chief Executive Officer
(Principal Executive Officer)

Date: March 6, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Michael H. Braun</u> Michael H. Braun	Chief Executive Officer, President and Director (Principal Executive Officer)	March 6, 2020
<u>/s/ Ronald A. Jordan</u> Ronald A. Jordan	Chief Financial Officer (Principal Financial Officer)	March 6, 2020
<u>/s/ Erick A. Fernandez</u> Erick A. Fernandez	Chief Accounting Officer (Principal Accounting Officer)	March 6, 2020
<u>/s/ Bruce F. Simberg</u> Bruce F. Simberg	Chairman of the Board and Director	March 6, 2020
<u>/s/ Jenifer G. Kimbrough</u> Jenifer G. Kimbrough	Director	March 6, 2020
<u>/s/ Thomas A. Rogers</u> Thomas A. Rogers	Director	March 6, 2020
<u>/s/ William G. Stewart</u> William G. Stewart	Director	March 6, 2020
<u>/s/ Richard W. Wilcox, Jr.</u> Richard W. Wilcox, Jr.	Director	March 6, 2020
<u>/s/ Roberta N. Young</u> Roberta N. Young	Director	March 6, 2020
<u>/s/ David W. Michelson</u> David W. Michelson	Director	March 6, 2020
<u>/s/ David K. Patterson</u> David K. Patterson	Director	March 6, 2020

Schedule II – Condensed Financial Information of Registrant
Condensed Balance Sheets
 FEDNAT HOLDING COMPANY (Parent Company Only)
 December 31, 2019 and 2018

	December 31,	
	2019	2018
	(In thousands)	
ASSETS		
Investments in subsidiaries (1)	\$ 268,767	\$ 224,951
Investment securities, available-for-sale, at fair value	24,951	19,431
Equity securities, at fair value	1,751	1,490
Cash and cash equivalents	21,031	4,109
Deferred income taxes, net	1,940	786
Income taxes receivable	13,850	9,885
Note receivable and accrued interest to subsidiary (1)	18,107	—
Right-of-use assets	7,716	—
Other assets	2,878	2,436
Total assets	<u>\$ 360,991</u>	<u>\$ 263,088</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Due to subsidiaries, net (1)	\$ 1,779	\$ 987
Long-term debt	98,522	44,404
Lease liabilities	7,716	—
Other liabilities	4,281	2,438
Total liabilities	<u>112,298</u>	<u>47,829</u>
Shareholders' Equity		
Preferred stock	—	—
Common stock	144	128
Additional paid-in capital	167,677	141,128
Accumulated other comprehensive income (loss)	10,281	(3,750)
Retained earnings	70,591	77,753
Total shareholders' equity	<u>248,693</u>	<u>215,259</u>
Total liabilities and shareholders' equity	<u>\$ 360,991</u>	<u>\$ 263,088</u>

(1) Eliminated in consolidation.

The accompanying note is an integral part of the condensed financial statements.

Schedule II – Condensed Financial Information of Registrant (Continued)

Condensed Statements of Earnings

FEDNAT HOLDING COMPANY (Parent Company Only)

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Revenues:			
Management fees (1)	\$ 2,160	\$ 2,608	\$ 2,611
Interest from subsidiaries (1)	107	—	—
Net investment income	1,757	843	501
Net realized and unrealized investment gains (losses)	448	(765)	—
Equity in income of consolidated subsidiaries	20,909	30,895	16,902
Total revenue	<u>25,381</u>	<u>33,581</u>	<u>20,014</u>
Costs and expenses:			
General and administrative expenses	13,892	9,296	11,087
Interest expense	10,776	4,077	—
Total costs and expenses	<u>24,668</u>	<u>13,373</u>	<u>11,087</u>
Income (loss) before income taxes	713	20,208	8,927
Income tax expense (benefit)	(298)	5,498	3,585
Net income (loss)	<u>1,011</u>	<u>14,710</u>	<u>5,342</u>
Net income (loss) attributable to non-controlling interest	—	(218)	(2,647)
Net income (loss) attributable to FedNat Holding Company shareholders	<u>\$ 1,011</u>	<u>\$ 14,928</u>	<u>\$ 7,989</u>

(1) Eliminated in consolidation.

The accompanying note is an integral part of the condensed financial statements.

Schedule II – Condensed Financial Information of Registrant (Continued)

Condensed Statements of Cash Flows

FEDNAT HOLDING COMPANY (Parent Company Only)

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Cash flow from operating activities:			
Net income (loss)	\$ 1,011	\$ 14,710	\$ 5,342
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Net realized and unrealized investment (gains) losses	(448)	765	—
Equity in undistributed income of consolidated subsidiaries (1)	(20,909)	(30,895)	(16,902)
Amortization of investment premium or discount, depreciation and amortization	369	141	88
Loss (gain) on early extinguishment of debt	3,575	—	—
Share-based compensation	1,050	1,183	2,846
Changes in operating assets and liabilities:			
Income taxes, net	(5,379)	(2,371)	4,354
Due to subsidiaries, net (1)	3,044	(9,317)	20,468
Other, net	998	1,497	1,450
Net cash provided by (used in) operating activities	(16,689)	(24,287)	17,646
Cash flow from investing activities:			
Capital contributions to consolidated subsidiaries (1)	—	(30,000)	(25,000)
Sales, maturities and redemptions of investments securities	11,276	54,543	42,979
Purchases of investment securities	(15,617)	(61,009)	(26,828)
Payment for acquisition	(25,566)	—	—
Issuance of note receivable to subsidiary (1)	(18,000)	—	—
Purchases of property and equipment	(289)	(639)	(102)
Net cash provided by (used in) investing activities	(48,196)	(37,105)	(8,951)
Cash flow from financing activities:			
Proceeds from issuance of long-term debt, net of issuance costs	98,390	—	—
Payment of long-term debt and prepayment penalties	(48,000)	—	45,000
Issuance of common stock for share-based awards	1	39	103
Purchases of FedNat Holding Company common stock	(3,449)	(5,061)	(10,616)
Dividends from consolidated subsidiaries	39,174	27,990	—
Dividends paid	(4,309)	(4,184)	(4,251)
Net cash provided by (used in) financing activities	81,807	18,784	30,236
Net increase (decrease) in cash and cash equivalents	16,922	(42,608)	38,931
Cash and cash equivalents at beginning of period	4,109	46,717	7,786
Cash and cash equivalents at end of period	\$ 21,031	\$ 4,109	\$ 46,717

(1) Eliminated in consolidation.

The accompanying note is an integral part of the condensed financial statements.

Schedule II – Condensed Financial Information of Registrant (Continued)

Note to Condensed Financial Statements

FEDNAT HOLDING COMPANY (Parent Company Only)

(1) ORGANIZATION AND BASIS OF PRESENTATION

FedNat Holding Company (“FNHC”), the Parent Company, is an insurance holding company that controls substantially all steps in the insurance underwriting, distribution and claims processes through our subsidiaries and our contractual relationships with our independent agents and general agents.

The accompanying condensed financial statements include the activity of the Parent Company and on an equity basis, its consolidated subsidiaries. Accordingly, these condensed financial statements have been presented for the parent company only. These condensed financial statements should be read in conjunction with the consolidated financial statements and related notes of FNHC and subsidiaries set forth in Part II, Item 8 Financial Statements and Supplemental Data of this Annual Report.

In applying the equity method to our consolidated subsidiaries, we record the investment at cost and subsequently adjust for additional capital contributions, distributions and proportionate share of earnings or losses.

Schedule V – Valuation and Qualifying Accounts
FEDNAT HOLDING COMPANY AND SUBSIDIARIES

Year	Description	Balance at January 1,	Charged to		Balance at December 31,
			Costs and Expenses	Deductions	
(in thousands)					
2019	Allowance for uncollectible reinsurance recoverable	\$ —	\$ —	\$ —	\$ —
	Allowance for uncollectible premiums receivable	\$ 77	\$ 82	\$ —	\$ 159
2018	Allowance for uncollectible reinsurance recoverable	\$ —	\$ —	\$ —	\$ —
	Allowance for uncollectible premiums receivable	\$ 70	\$ 7	\$ —	\$ 77
2017	Allowance for uncollectible reinsurance recoverable	\$ —	\$ —	\$ —	\$ —
	Allowance for uncollectible premiums receivable	\$ 55	\$ 15	\$ —	\$ 70

Schedule VI – Supplemental Information Concerning Insurance Operations
FEDNAT HOLDING COMPANY AND SUBSIDIARIES

Year	Line of Business	December 31,			Year Ended December 31,						
		Deferred Acquisition Cost	Loss and Loss Adjustment Expense Reserves	Unearned Premiums	Net Investment Income	Claim and Claim Adjustment Expenses Incurred Related to		Amortization of Deferred Acquisition Costs	Paid Claims and Claim Adjustment Expenses	Net Premiums Written	
		Cost	Reserves	Premiums	Premiums	Income	Current Year	Prior Year	Costs	Expenses	Written
(In thousands)											
2019	Property and Casualty Insurance	\$ 56,136	\$ 324,362	\$ 360,870	\$ 363,652	\$ 15,901	\$ 262,109	\$ 10,971	\$ 96,885	\$ 254,806	\$ 377,879
2018	Property and Casualty Insurance	\$ 39,436	\$ 296,230	\$ 281,992	\$ 355,257	\$ 12,460	\$ 231,133	\$ (2,717)	\$ 97,873	\$ 230,752	\$ 365,032
2017	Property and Casualty Insurance	\$ 40,893	\$ 230,515	\$ 294,423	\$ 333,481	\$ 10,254	\$ 245,545	\$ 2,012	\$ 87,310	\$ 233,085	\$ 342,893