FCCI Mutual Insurance Holding Company and Subsidiaries

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Consolidated Financial Statements
As of and for the Years Ended December 31, 2021 and 2020

Independent Auditor's Report

Board of Directors and Members
FCCI Mutual Insurance Holding Company and Subsidiaries
Sarasota, Florida

Opinion

We have audited the consolidated financial statements of FCCI Mutual Insurance Holding Company and subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income and comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of FCCI Mutual Insurance Holding Company and subsidiaries as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, LLP

March 31, 2022
Atlanta, Georgia

FCCI Mutual Insurance Holding Company and Subsidiaries

Consolidated Balance Sheets as of December 31, (in thousands)

		2021	2020
Assets			
Investments:			
Securities available for sale, at fair value:			
Fixed maturity securities (amortized cost of $1,613,074 at 2021 and $1,504,508 at 2020)	$	1,642,767	1,566,135
Common stocks (cost of $417,187 at 2021 and $403,807 at 2020)		536,554	473,890
Other invested assets, at amortized cost		20,802	3,952
Total investments		2,200,123	2,043,977
Cash and cash equivalents		42,766	59,052
Accrued investment income		9,857	9,327
Amounts due from policyholders, net		365,559	345,614
Reinsurance recoverable and prepaid reinsurance premium		106,350	85,520
Amounts due from Florida Special Disability Trust Fund		1,464	1,660
Deferred policy acquisition costs		67,396	62,983
Land, building and equipment, net		55,599	48,596
Goodwill		24,151	24,151
Other assets		18,357	18,395
Total assets	$	2,891,622	2,699,275
Liabilities and Members' Equity			
Liabilities:			
Loss and loss adjustment expenses	$	1,137,748	1,084,243
Unearned premiums		420,789	396,345
Accrued expenses and other liabilities		157,521	129,542
Accrued policyholder dividends		5,014	6,137
Premiums refundable and loss fund deposits		2,608	2,825
Deferred tax liability		15,332	11,434
Income tax payable		7,570	766
Debt		131,750	131,750
Total liabilities		1,878,332	1,763,042
Commitments and Contingencies (Note 15)			
Members' Equity:			
Accumulated earnings		990,735	889,423
Accumulated other comprehensive income		22,555	46,810
Total members' equity		1,013,290	936,233
Total liabilities and members' equity	$	2,891,622	2,699,275

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income for the Years Ended December 31, (in thousands)

		2021	2020
Revenues			
Net premiums earned	$	882,887	830,922
Net investment income		63,011	59,557
Change in unrealized gain on common stocks		49,283	13,830
Net realized (loss) gain		12,518	(9,674)
Service fees and other income		2,161	1,910
Total revenues		1,009,860	896,545
Expenses			
Losses and loss adjustment expenses incurred		581,442	553,514
Policy acquisition expenses		169,935	151,389
General, administrative and other expenses		127,349	118,503
Policyholder dividends		4,845	6,595
Total expenses		883,571	830,001
Income before income taxes		126,289	66,544
Income tax expense		26,005	4,237
Net income attributable to members	$	100,284	62,307

See accompanying notes to consolidated financial statements.

FCCI Mutual Insurance Holding Company and Subsidiaries

Consolidated Statements of Comprehensive Income for the Years Ended December 31, (in thousands)

	2021	2020
Net income attributable to members	$ 100,284	62,307
Other comprehensive income, net of taxes:		
(Decrease) increase in unrealized gains on investments, net of taxes of ($4,668) and $4,603	(14,747)	14,544
Reclassification adjustments for realized losses (gains) losses in net income, net of taxes of ($3,010) and $2,326	(9,508)	7,348
	(24,255)	21,892
Total comprehensive income	$ 76,029	84,199

See accompanying notes to consolidated financial statements.

Consolidated Statements of Members' Equity for the Years Ended December 31, (in thousands)

	Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance, December 31, 2019	$ 827,116	24,918	852,034
Comprehensive income:			
Net income	62,307	-	62,307
Change in unrealized gains on available-for-sale securities net of taxes	-	21,892	21,892
Balance, December 31, 2020	889,423	46,810	936,233
Comprehensive income:			
Net income	100,284	-	100,284
Change in unrealized gains on available-for-sale securities net of taxes	-	(24,255)	(24,255)
Adoption of new accounting pronouncement (ASC 842)	1,028	-	1,028
Balance, December 31, 2021	$ 990,735	22,555	1,013,290

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows for the Years Ended December 31, (in thousands)

	2021	2020
Cash flows from operating activities:		
Net income	$ 100,284	62,307
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	9,782	6,922
Deferred tax expense	11,575	2,188
Net realized gains on equipment sold and retired	(224)	153
Net realized gains on investments	(62,401)	(4,570)
Net amortization of investments	4,936	5,232
Changes in assets and liabilities:		
Decrease (increase) in:		
Accrued investment income	(530)	875
Amounts due from policyholders	(19,945)	(22,674)
Reinsurance recoverables and prepaid reinsurance premium	(20,830)	(17,261)
Amounts due from Florida Special Disability Trust Fund	196	(28)
Deferred policy acquisition costs	(4,413)	(5,754)
Other assets	(658)	477
Increase (decrease) in:		
Loss and loss adjustment expenses	53,505	51,905
Unearned premiums	24,444	31,099
Accrued expenses and other liabilities	2,248	(5,442)
Accrued policyholder dividends	(1,123)	(1,183)
Premiums refundable and loss fund deposits	(217)	974
Income tax payable	6,804	(404)
Net cash provided by operating activities	103,433	104,816

Consolidated Statements of Cash Flows for the Years Ended December 31, (in thousands)

	2021	2020
Cash flows from investing activities:		
Sales and maturities of investments	$ 568,160	461,680
Purchases of investments	(681,458)	(560,804)
Proceeds from sales of property and equipment	450	77
Purchases of property and equipment	(6,871)	(6,588)
Net cash used in investing activities	(119,719)	(105,635)
Cash flows from financing activities:		
Proceeds from credit facility	-	-
Principal payments on credit facility	-	-
Net cash provided by financing activities	-	-
Net decrease in cash and cash equivalents	(16,286)	(819)
Cash and cash equivalents, beginning of year	59,052	59,871
Cash and cash equivalents, end of year	$ 42,766	$ 59,052
Cash paid during the year for:		
Interest	$ 3,094	3,103
Income taxes	$ 7,217	1,772

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements (in thousands)

1. Nature of Operations

FCCI Mutual Insurance Holding Company and subsidiaries (the Company) was created on August 27, 1998 when the policyholders of FCCI Mutual Insurance Company voted to reorganize into a mutual holding company. The Company is engaged in the commercial property and casualty insurance business. In connection with the reorganization, FCCI Group, Inc. was formed as an intermediate holding company for the purpose of holding investments in insurance operations. FCCI Mutual Insurance Company became FCCI Insurance Company, a stock insurance company by issuing 5 million shares of common stock to FCCI Group, Inc. No cash or other consideration was paid in connection with the reorganization.

2. Summary of Significant Accounting Policies

Basis of Presentation
The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The significant accounting policies followed by the Company are summarized below.

Principles of Consolidation
The consolidated financial statements include the accounts, after intercompany eliminations, of the Company as summarized below:

- FCCI Group, Inc. (FGI)
  - FCCI Services, Inc. (FSI)
    - FCCI Agency, Inc. (FAI)
  - FCCI Insurance Company (FCCI)
    - FCCI Insurance Group, Inc. (FIG)
      - Monroe Guaranty Insurance Company (MGI)
      - National Trust Insurance Company (NTI)
      - FCCI Commercial Insurance Company (FCIC)
      - FCCI Advantage Insurance Company (FAIC)
      - Brierfield Insurance Company (BIC)

All of the above are wholly owned subsidiaries.

Cash and Cash Equivalents
Cash equivalents consist of short-term, highly liquid investments that are readily convertible to known amounts of cash. Only investments with original maturities of three months or less qualify as cash equivalents.

Investments
The Company purchases equity and fixed maturity securities with the intent, expectation and capability to hold them indefinitely or until maturity. However, since securities may be sold prior to maturity they are classified as available-for-sale and are reported at fair value. Net unrealized gains and losses, net of deferred income tax, are reported as accumulated other comprehensive income (loss) for fixed maturities, and as accumulated earnings through net income for equity securities. Fair values are based on quoted market prices from independent pricing services when available or broker pricing if the security class lacks liquidity. A decline in fair value of any fixed income security below cost that is deemed to be other-than-temporary results in a charge to income. All fixed income holdings are continuously monitored to assess future prospects for individual securities as part of the Company's portfolio management, including the identification of other-than-temporary decline in fair values.

All fixed income securities in an unrealized loss position as of the reporting date are evaluated for other-than-temporary impairment. The Company does not define an arbitrary finite period as temporary. Rather, the Company believes the time frame should be related more closely to reasonable levels of liquidity in bond markets. In addition to issuer specific discrete credit events, management identifies fixed maturity securities as candidates for potential other-than-temporary impairment if they have been in an unrealized loss position for thirteen consecutive months and the fair values are at least 20% below book value as of the balance sheet date. These securities are evaluated by management utilizing data and information from the Company's external investment consultants and investment manager to determine if the unrealized loss position is due to credit issues rather than market volatility, in which case an other-than-temporary impairment loss will be recognized in the income statement. This evaluation includes an analysis of expected future cash flows and projections of the probability and severity of defaults. In addition, if events indicate that the Company will not hold securities until the fair value recovers from an unrealized loss position, the Company will recognize an other-than-temporary impairment in the consolidated statement of income.

Realized gains and losses on the sales of securities are recognized based on the specific identification method, except for mutual fund equities which are based on the weighted average cost method. Premiums and discounts on securities are amortized using the effective interest method over their contractual lives or expected average lives for loan-backed securities. Interest rate adjustments associated with changes in projected cash flows on mortgage and asset-backed securities are accounted for using the retrospective method.

Deferred Policy Acquisition Costs
Costs that are directly associated with the acquisition of insurance policies such as commissions and premium taxes are deferred and amortized as the related premiums are earned. Indirect costs to acquire insurance policies are recorded as an expense as incurred. The Company considers anticipated investment income in determining whether a premium deficiency exists.

Land, Building and Equipment
Land is stated at cost. Buildings and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally three to 39 years. Improvements, which increase the life of an asset, are capitalized and depreciated over the remaining estimated useful life of the asset. Property and equipment held under lease with terms greater than one year, are accounted for as a right-of-use asset in accordance with Accounting Standards Codification (ASC) 842, *Leases*, and are also classified as land, building and equipment, with the related lease obligations recorded in other liabilities. Capitalized software costs are accounted for in accordance with ASC 350-40, *Internal Use Software*, and are recorded at cost less accumulated amortization. Upon successful testing of the system, amortization is charged to expense over the estimated useful life of the software, generally seven years.

Goodwill
Goodwill represents the excess of costs over fair value of assets of acquired businesses and is determined to have an indefinite useful life and is not amortized, but instead tested for impairment at least annually in accordance with ASC 350-20, *Goodwill*.

Impairment of Long-Lived Assets
In accordance with ASC 360, *Property, Plant and Equipment*, long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset to be tested for possible impairment, the Company first compares undiscounted future cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques under ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

Recognition of Revenue
Premiums are earned on a pro rata basis over the policy term, generally one year. The policy period for contract surety business is determined based on the estimated completion date of the contract. Premiums applicable to the unexpired terms of effective policies are recorded as unearned premiums. Premiums for certain lines of business, such as workers' compensation, are subject to revision based upon final determination of the exposure base, which occurs after the policy period. Retrospectively rated policy premiums are increased or decreased, subject to certain policy limitations, based upon the estimated loss experience of the insured during the policy period and subsequent calendar years. Service fees and commission income are earned pro rata over the term of the contract period or when the services are performed, if applicable. Reinsurance commission income is recognized pro rata over the term of the related insurance contract.

Loss and Loss Adjustment Expenses
The liability for loss and loss adjustment expenses (LAE) represents the ultimate estimated liability for reported claim costs (including LAE) that have not settled, and an estimate, based on experience, for claims that have been incurred but not yet reported. The liability for loss and LAE is estimated by management based upon actuarial reviews of the Company's historical loss development experience and industry data. The Company does not discount the liability for loss and LAE.

Policyholder Dividends
At the sole discretion of the Boards of Directors of the insurance companies, and within regulatory guidelines, insureds with participating insurance contracts may be eligible to share in the profitability of the policy in the form of a dividend, based on the insured's individual loss experience. An estimated provision for policyholder dividends is accrued as the related premiums are earned based on historical profitability and published dividend tables. Changes in estimates are recognized in the period determined.

Reinsurance
Premiums and loss and LAE ceded under reinsurance contracts are reported as a reduction to premiums earned and loss and LAE incurred, respectively. Loss and LAE reserve amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsurance contract.

Florida Special Disability Trust Fund
Amounts due from the Florida Special Disability Trust Fund (SDTF) relate to recoverable amounts for certain claim costs related to injuries that aggravate or accelerate a preexisting injury or physical impairment. The receivable is comprised of three components: amounts paid by the Company which have been submitted to the SDTF pending reimbursement, amounts paid by the Company which have not yet been submitted to the SDTF, and amounts not yet paid by the Company.

Income Taxes
The Company files a consolidated federal income tax return. Deferred income taxes are recognized for assets and liabilities that have different values for financial statement and tax reporting purposes using enacted federal and state tax rates. A valuation allowance is recorded, as deemed necessary, to reduce a net deferred tax asset to the amount expected to be realized.

The Company's federal income tax return is consolidated with all of the entities noted on page 10.

Concentrations of Business Risks
The Company is inherently subject to various business risks. Following is a description of the most significant risks facing property and casualty insurers:

Catastrophic Loss Risk is the risk of losses due to geographic concentrations of property policies within storm-prone regions and accumulation of lives within a single location. The Company maintains reinsurance coverage to mitigate the risk of catastrophic losses.

Legal/Regulatory Risk is the risk that the legal or regulatory environment in which an insurer operates will change and create additional loss costs or expense not anticipated by the insurer in pricing its products. Regulatory initiatives designed to reduce insurer profits or new legal theories may create costs for the insurer beyond those currently recorded in the consolidated financial statements. As the Company writes a significant amount of insurance business in the state of Florida, these risks might have a more significant effect on the Company than on a more geographically diversified insurance company.

Credit Risk is the risk that issuers of securities owned by the Company will default or other parties, including policyholders, reinsurers, and the SDTF that owe the Company money, will not pay. The Company minimizes this risk by adhering to a conservative investment strategy, closely monitoring premiums receivable, and contracting with reinsurance companies that meet certain rating criteria and other qualifications.

Interest Rate Risk is the risk that interest rates will change and cause a decrease in the value of an insurer's investments. To the extent that liabilities come due more quickly than assets mature, an insurer would have to sell assets prior to maturity and potentially recognize a loss in a rising interest rate environment. The Company mitigates this risk by attempting to match the duration of its assets with the duration of its liabilities and by maintaining working lines of credit.

Use of Estimates
The preparation of consolidated financial statements requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates. Significant estimates include the liability for loss and LAE, amounts recoverable from reinsurers, deferred income tax assets and liabilities, the deferral of policy acquisition costs, amounts due from the Florida SDTF, accrued policyholder dividends, guaranty fund assessments, final premium audits, allowance for doubtful accounts, and retrospectively rated premiums.

Reclassifications
Certain fiscal 2020 amounts have been reclassified to conform to the current year presentation.

Going Concern
Based upon its evaluation of relevant conditions and events, management does not have substantial doubt about the Company's ability to continue as a going concern.

Recently Issued Accounting Standards
In February 2016, the FASB issued ASU No. 2016-02 (Topic 842), *Leases*. The FASB issued this updated accounting guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The main difference for the Company is the recognition of lease assets and lease liabilities for leases classified as operating leases. The updated guidance was delayed by the FASB and is now effective for the year ending December 31, 2022, with early adoption permitted. The Company early adopted this updated guidance for the year ending December 31, 2021. The Company recorded right-of-use assets and lease obligation liabilities for office facilities and office equipment based on the net present value of future lease payments, and a cumulative effect adjustment of $1,028 was recorded to beginning 2021 accumulated earnings under the optional transition method.

In June 2016, the FASB issued ASU No. 2016-13 (Topic 326), *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The updated guidance applies a new credit loss model requiring entities to estimate credit losses expected over the life of an exposure or pool of exposures. The expected credit losses and subsequent adjustments will be recorded through an allowance account that is deducted from the amortized cost basis of the financial asset. This update amends the current other-than-temporary impairment model for available-for-sale securities by requiring recognition of impairments related to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. The length of time a security has been in an unrealized position will no longer impact the determination of whether a credit loss exists. The updated guidance was delayed by the FASB and is now effective for the year ending December 31, 2023, with early adoption permitted. The Company is currently evaluating the impact that this standard will have on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04 (Topic 350), *Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment*. The updated guidance eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge by comparing a reporting unit's fair value with its carrying amount and recognizing an impairment charge for the excess of the carrying amount over estimated fair value (i.e., Step 1 of current guidance). The updated guidance was delayed by the FASB, and is now effective for fiscal year ending December 31, 2023, with early adoption permitted. The Company does not believe the adoption of this update will have an impact on the future financial statements and related disclosures.

Notes to Consolidated Financial Statements (in thousands)

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other - Internal Use Software*. The updated guidance allows capitalization of implementation costs incurred in connection with a cloud computing arrangement that is a service contract. However, the guidance specifies that the capitalized costs should be presented as prepaid expenses and amortized over the life of the hosting arrangement. The updated guidance is effective for fiscal year ending December 31, 2021, with early adoption permitted. The Company does not believe the adoption of this update will have an impact on the future financial statements and related disclosures.

Subsequent Events

The Company has evaluated events subsequent to December 31, 2021, and through the financial statements' issuance date of March 31, 2022. No events occurring subsequent to the balance sheet date merited recognition or disclosure in these financial statements.

See 'Commitments and Contingencies,' Note 15.

3. Investments

The amortized cost and fair value of available for sale securities are as follows:

2021	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
US Treasury and US government agencies and corporations	$ 26,341	179	(271)	26,249
State and political subdivisions	341,912	13,824	(541)	355,195
Mortgage-backed and asset-backed securities	736,584	7,941	(5,336)	739,189
Corporate bonds	444,569	15,736	(2,160)	458,145
Foreign government and foreign corporate bonds	63,667	1,017	(695)	63,989
Total fixed maturity securities	1,613,073	38,697	(9,003)	1,642,767
Common stock	417,187	119,676	(309)	536,554
Total available-for-sale securities	$ 2,030,260	158,373	(9,312)	2,179,321

2020	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
US Treasury and US government agencies and corporations	$ 25,508	536	(4)	26,040
State and political subdivisions	333,871	18,930	(4)	352,797
Mortgage-backed and asset-backed securities	673,943	17,294	(3,122)	688,115
Corporate bonds	409,968	27,683	(2,051)	435,600
Foreign government and foreign corporate bonds	61,218	2,714	(349)	63,583
Total fixed maturity securities	1,504,508	67,157	(5,530)	1,566,135
Common stock	403,807	73,320	(3,237)	473,890
Total available-for-sale securities	$ 1,908,315	140,477	(8,767)	2,040,025

The amortized cost and fair value of fixed maturity securities by contractual maturities are as follows:

	Amortized Cost(1)	**Fair Value(1)**
Due in one year or less	$ 72,717	73,241
Due after one year through five years	687,165	694,950
Due after five years through ten years	545,480	554,958
Due after ten years	307,711	319,618
Total fixed maturities	$ 1,613,073	1,642,767

(1) Includes principal paydowns on mortgage and asset-backed securities using estimated maturities.

Mortgage and asset-backed securities are classified in the maturity distribution based upon their projected cash flows. Projected cash flows for asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) are generated using sector level or CUSIP level prepayment, default, and loss severity assumptions. For residential mortgage-backed securities (RMBS), cash flows are generated using a probabilistic behavioral prepayment and credit model. Actual maturities and projected cash flows may differ from contractual maturities because borrowers may have the right to call or prepay obligations without call or prepayment penalties.

Notes to Consolidated Financial Statements (in thousands)

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less Than 12 Months		12 Months or More		Total	
2021	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**
Available for sale:						
Bonds	$ 2,671	158,480	996	31,586	3,667	190,066
Mortgage-backed and asset-backed securities	4,906	372,929	430	57,693	5,336	430,622
Common stock	129	11,416	180	13,329	309	24,745
	$ 7,706	542,825	1,606	102,608	9,312	645,433

	Less Than 12 Months		12 Months or More		Total	
2020	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**
Available for sale:						
Bonds	$ 1,127	63,444	1,281	28,034	2,408	91,478
Mortgage-backed and asset-backed securities	1,884	92,819	1,238	125,318	3,122	218,137
Common stock	3,237	45,599	-	-	3,237	45,599
	$ 6,248	201,862	2,519	153,352	8,767	355,214

The Company's other-than-temporary impairment assessment includes reviewing the extent and duration of declines in fair values of investments, the seniority and duration for the securities, historical and projected company financial performance, company specific news and other developments, the outlook for industry sectors, credit ratings and macro-economic changes, including government policy initiatives. The largest single unrealized loss at December 31, 2021 was $180, representing a 1.33% decline, on a common stock security.

The Company did not recognize any OTTI loss during 2021. A security was sold in the fourth quarter of 2021 that had previously incurred an OTTI charge during 2020 and 2019. During 2020, the Company recognized an OTTI charge of $60 on one fixed maturity security, due to the issuer-specific credit and other events, consistent with management's criteria for recognizing other-than-temporary declines in fair value.

For fixed maturity securities, the Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Because management has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, management does not consider these securities to be other-than-temporarily impaired at December 31, 2021. Management bases this conclusion on its current understanding, which includes the opinions of their outside investment consultants and outside investment manager, of the issuers of these securities, as described above.

It is possible that the Company could recognize other-than-temporary impairment losses on some securities owned at December 31, 2021, if future events, information and the passage of time cause the Company to determine that a decline in value is other-than-temporary.

Net investment income is summarized as follows:

	2021	2020
Bonds	$ 48,770	49,004
Equity securities	18,295	15,351
Other invested assets	85	46
Cash, cash equivalents and short-term investments	129	298
Gross investment income	67,279	64,699
Investment expenses	(4,268)	(5,142)
Net investment income	$ 63,011	59,557

Net realized gains on investments sold or impaired were comprised of the following:

	2021	2020
Fixed maturity securities:		
Gross gains	$ 5,610	$ 2,963
Gross losses	(930)	(2,972)
Equity securities:		
Gross gains	7,978	-
Gross losses	-	(1,473)
Short-term investments:		
Gross gains	1	6
Other invested assets:		
Gross gains	-	2
Gross losses	(141)	(8,140)
OTTI charges incurred on fixed maturity securities	-	(60)
Net realized gain (loss)	$ 12,518)	$ 9,674)

Notes to Consolidated Financial Statements (in thousands)

The Company did not recognize any OTTI loss during 2021. A security was sold in the fourth quarter of 2021 that had previously incurred an OTTI charge during 2020 and 2019. During 2020, the Company recognized an OTTI charge of $60.

At December 31, 2021 and 2020, bonds, cash, and cash equivalents with fair values of $20,137 and $19,697, respectively, were pledged to various state and federal regulatory authorities.

The Company maintains a diversified portfolio and there were no concentrations in any one investment in excess of 6% and 7% of members' equity at December 31, 2021 and 2020, respectively.

The Company does not engage in direct subprime residential mortgage lending. The Company's exposure to subprime mortgage-related risk is limited to investments within the fixed maturity income investment portfolio, which contains securities collateralized by mortgages that have characteristics of subprime lending. Such characteristics include an interest rate above prime to borrowers who do not qualify for prime rate loans, borrowers with low credit ratings (FICO scores), unconventionally high initial loan-to-value ratios, and borrowers with less than conventional documentation of their income and/or net assets.

The Company minimizes subprime mortgage-related risk exposure by holding securities that carry an aggregate credit rating of B and by monitoring the underlying collateral performance on an ongoing basis.

The following chart summarizes the actual cost and the fair value of subprime mortgage-related risk exposure:

	Actual Cost	Fair Value	Other-Than-Temporary Impairment Losses Recognized to Date
Residential mortgage-backed securities	$ 63	59	-

Other Invested Assets

During 2015, FCCI Group, Inc., a company within the FCCI Insurance Group, entered into an Operating agreement with a third party for the purpose of investing in low-income housing property that will provide the Company with federal low-income housing tax credits and other tax benefits from operations.

The Company's carrying value of the investment is $1,389 and $1,799 as of December 31, 2021 and 2020, respectively, including its adjusted costs of $4,665. Amortization was $409 and $401 for years ending December 31, 2021 and 2020, respectively. During each year 2021 and 2020, the Company recognized $523 of federal tax credits. The investment is being amortized over eleven years from the initial date of acquisition using the proportional amortization method. The Company has four years of remaining unexpired federal tax credits. Each low-income property is subject to an annual regulatory review and the properties maintain their qualified status as of December 31, 2021.

During 2016, FCCI Group, Inc., entered into an operating agreement with a third party for the purpose of investing in solar renewable energy projects that will provide the Company with federal renewable energy or solar tax credits and other tax benefits from operations.

The Company's carrying value of the investment is $923 and $971 as of December 31, 2021 and 2020, respectively, including its costs of $8,557. Impairment of $48 and $0 was recognized during 2021 and 2020, respectively. During 2016, the Company received $7,227 of federal renewable energy tax credits. There are no remaining future federal tax credits pending as of December 31, 2021. The Company is scheduled to receive additional tax benefits from operations and cash distributions from the project for the next year. The investment will be analyzed for impairment on an annual basis. There is a five year compliance period from the place in service date which was December 22, 2016. The project is subject to review and the facilities were developed, constructed and leased in a manner that qualifies for the energy credit under the applicable section of the tax code. The project has maintained its qualified status as of December 31, 2021.

During 2020, FCCI Group, Inc., entered into an operating agreement with a third party for the purpose of investing in solar renewable energy projects that will provide the Company with federal renewable energy or solar tax credits.

The Company's carrying value of the investment is $1,089 and $1,182 as of December 31, 2021 and 2020, respectively, including its costs of $9,322. Impairment of $94 and $8,140 was recognized during 2021 and 2020, respectively. During 2020, the Company received $8,398 of federal solar tax credits. All federal renewable energy tax credits were received during 2020 and there are no remaining future federal tax credits pending as of December 31, 2021. The investment will be analyzed for impairment on an annual basis. The project is subject to review and the facilities were developed, constructed and leased in a manner that qualified for the energy credit under the applicable section of the tax code. The project has maintained its qualified status as of December 31, 2021. The Company received a cash distribution of $85 during 2021 and will receive cash distributions and a put payment during years three through six.

The Company's future cash distributions and a put payment:

FCCI Group, Inc.	Cash Distribution	Put Payment
2022	$ 176	
2023	159	
2024	161	
2025		592

During 2021, FCCI Insurance Company entered into an operating agreement with a third party for the purpose of investing in solar renewable energy projects that will provide the Company with federal renewable energy or solar tax credits. The project is subject to review and the facilities are expected to be developed, constructed and leased in a manner that qualifies for the energy credit under the applicable section of the tax code.

The Company's carrying value and cost of the investment is $17,400 as of December 31, 2021. During 2021, the Company paid $3,574 in capital contributions and accrued $13,826 in future capital contributions toward the investment. No federal renewable energy tax credits were received during 2021 as the project was not placed in service during the year. Future federal tax credits of $15,747 are expected to be received in 2022, as well as expected future cash distributions totaling $2,213 to be received during years two through seven.

The investment will be analyzed for impairment on an annual basis.

The Company's future cash distributions:

FCCI Insurance Company	Cash Distribution
2022	$ 201
2023	318
2024	309
2025	302
2026	299
2027	784

Notes to Consolidated Financial Statements (in thousands)

Fair Value Measurements
The Company has adopted the provisions of ASC 820, which defines fair value as the exit price or the amount that would be (1) received to sell an asset or (2) paid to transfer a liability in an orderly transaction between marketplace participants at the measurement date. When determining an exit price, the Company must, whenever possible, rely upon observable market data.

The ASC 820 exit price notion requires the Company's valuation to also consider what a marketplace participant would pay to buy an asset or receive to assume a liability. Therefore, while the Company can consider pricing data from these outside services, the Company ultimately determines whether the data or inputs used by these outside services are observable or unobservable.

In accordance with ASC 820, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level that is significant to the fair value measurement of the instrument.

Level 1 and Level 2 Valuation Techniques
All invested assets of the Company measured at fair value are classified as Level 1 or Level 2. Financial assets that fall within Level 1 and Level 2 are priced according to observable data from identical or similar securities that have traded in the marketplace. Also within Level 2 are securities that are valued by outside pricing services because the inputs used in pricing the securities are market observable. The Company has evaluated the pricing methodology and has determined that the inputs are observable.

Level 3 Valuation Techniques
Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or liabilities and management may be unable to corroborate the related observable inputs. Unobservable inputs require management to make certain projections and assumptions about the information that would be used by market participants in pricing assets or liabilities. Fair value measurements of non-exchange traded financial instruments are based primarily on valuation models, discounted cash flow models or other valuation techniques that are believed to be used by market participants.

Rollforward of Level 3 Items

Description	Beginning Balance at 01/01/2021	Transfers into Level 3	Transfers out of Level 3	Purchases	Sales	Settlements	Ending Balance at 12/31/2021
Assets							
Common Stocks	$ -	-	-	31,287	-	-	31,287
Total Assets	-	-	-	31,287	-	-	31,287
Liabilities							
	$ -	-	-	-	-	-	-
Total Liabilities	-	-	-	-	-	-	-

Policy on Transfers into and out of Levels 1, 2 and 3
At the end of each reporting period, the Company evaluates whether or not an event has occurred or circumstances have changed that would cause an instrument to be transferred into or out of Levels 1, 2 and 3. The Company had no transfers into or out of Levels 1, 2 or 3 in the current year.

The following tables represent the fair value of fixed maturity and equity securities by hierarchy level:

2021	Total	Quoted Prices in Active Markets for Identical Assets Level 1 Inputs	Significant Observable Inputs Level 2 Inputs	Significant Unobservable Inputs Level 3 Inputs
US Treasury and US government agencies and corporations	$ 26,249	26,249	-	-
State and political subdivisions	355,195	-	355,195	-
Mortgage-backed and asset-backed securities	739,189	-	739,189	-
Corporate bonds	458,145	-	458,145	-
Foreign government and foreign corporate bonds	63,989	-	63,989	-
Total fixed maturity securities	1,642,767	26,249	1,616,518	-
Common stock(1)	530,441	499,154	-	31,287
Total investment securities	$ 2,173,208	525,403	1,616,518	31,287

(1) The Company holds $6,113 of other common stock carried at its contractually specified redemption value.

Notes to Consolidated Financial Statements (in thousands)

2020	Total	Quoted Prices in Active Markets for Identical Assets Level 1 Inputs	Significant Observable Inputs Level 2 Inputs	Significant Unobservable Inputs Level 3 Inputs
US Treasury and US government agencies and corporations	$ 26,040	26,040	-	-
State and political subdivisions	352,797	-	352,797	-
Mortgage-backed and asset-backed securities	688,115	-	688,115	-
Corporate bonds	435,600	-	435,600	-
Foreign government and foreign corporate bonds	63,583	-	63,583	-
Total fixed maturity securities	1,566,135	26,040	1,540,095	-
Common stock[1]	466,309	466,309	-	-
Total investment securities	$ 2,032,444	492,349	1,540,095	-

(1) The Company holds $7,581 of other common stock carried at its contractually specified redemption value.

4. Amounts Due from Policyholders

Amounts due from policyholders are composed of the following:

	2021	2020
Premiums in course of collection	$ 55,753	$ 49,729
Premiums deferred not yet due	307,985	293,188
Premiums due on retrospectively rated policies	5,642	5,926
Amounts due on deductible policies	1,051	927
Amounts due from policyholders, gross	370,431	349,770
Allowance for doubtful accounts	(4,872)	(4,156)
Amounts due from policyholders, net	$ 365,559	$ 345,614

The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in our amounts due from policyholders balance determined on the basis of historical experience, specific allowances for known troubled accounts, and other currently available evidence.

5. Deferred Policy Acquisition Costs

Deferred policy acquisition costs are summarized as follows:

	2021	2020
January 1,	$ 62,983	$ 57,229
Capitalized costs	152,493	143,175
Amortized costs	(148,080)	(137,421)
December 31,	$ 67,396	$ 62,983

6. Land, Building and Equipment

The major components of land, building and equipment are as follows:

	2021	2020
Land	$ 4,269	$ 4,269
Building and improvements	50,636	50,440
Furniture and equipment	19,840	18,755
Capitalized leases for property and equipment	10,095	-
Software in use	60,346	58,685
Software under development	4,965	2,077
Land, building and equipment, at cost	150,151	134,226
Accumulated depreciation and amortization	(94,552)	(85,630)
Land, building and equipment, net	$ 55,599	$ 48,596

Depreciation and amortization expense for land, building and equipment, including capital leases, for the years ended December 31, 2021 and 2020 amounted to $9,782 and $6,922, respectively.

Notes to Consolidated Financial Statements (in thousands)

7. Goodwill and Other Intangible Assets

The balance sheets include goodwill attributable to the Company's purchase of MGI in November 2000. The original amount of goodwill associated with the acquisition was $18,120. Prior to the adoption of ASC 350, *Intangibles-Goodwill and Other*, in 2002, cumulative amortization of $1,309 was recorded. In addition, the Company purchased Mississippi Insurance Managers (MIM), a managing general agent, through a wholly owned subsidiary in December 2008. The cost of the MIM acquisition was $8,000, and the Company recorded an intangible asset associated with the purchase of $4,949, which was amortized over ten years and was fully amortized as of December 31, 2018. The purchase contract included a three-year earn-out provision in which the final payout was made in 2011. All amounts paid in connection with this earn-out provision were recorded as an increase to goodwill.

As of December 31, 2021, the Company tested the underlying goodwill and intangible assets for recoverability, and the test indicated that the fair values exceeded the carrying values of the assets.

The following table details goodwill and intangible assets:

	2021			2020	
		Goodwill	Other Intangibles	Goodwill	Other Intangibles
Monroe Guaranty Insurance Company	$	18,120	-	18,120	-
Mississippi Insurance Managers, Inc.		7,340	4,949	7,340	4,949
Goodwill and other intangible assets, gross		25,460	4,949	25,460	4,949
Accumulated amortization(1)		(1,309)	(4,949)	(1,309)	(4,949)
Goodwill and other intangible assets, net	$	24,151	-	24,151	-

(1) Goodwill amortization recorded in 2001 prior to SFAS 142, *Goodwill and Other Intangible Assets*, now ASC 350-20, *Goodwill*

8. Liability for Loss and LAE

The Company establishes a liability for loss and LAE that estimates the future payments of reported and unreported claims for losses and the related loss expenses with respect to insured events that have occurred. Liability for loss and LAE are estimates of the unpaid portion of losses that have occurred, including incurred but not reported (IBNR) losses, as a result the process of establishing this liability is subject to uncertainties that are normal, recurring, and inherent in the property and casualty business. The process requires reliance upon estimates based on available data that reflects past experience, current trends, and other information and the exercise of informed judgment. Changes in the Company's estimate of this liability may be required as information develops that varies from experience, provides additional data, or, in some cases, augments data previously not considered sufficient for use in determining reserves. The effect of these changes, net of reinsurance, is charged (unfavorable development) or credited (favorable development) to income for the periods in which they are determined.

In management's judgment, information currently available has been appropriately considered in estimating the Company's liability for losses and LAE. However, future changes in estimates of the Company's liability for insured events may materially affect results positively or adversely in future periods although such effects cannot be reasonably estimated.

Activity in the liability for loss and LAE is summarized in the table below:

		2021		2020
January 1, gross	$	1,084,243	$	1,032,338
Less:				
Reinsurance recoverable, unpaid losses		72,065		61,984
Florida Special Disability Trust Fund recoverable (Note 9)		1,660		1,632
Salvage and subrogation recoverables		8,751		8,724
Retroactive reinsurance reserves assumed		1,939		2,221
Liability for loss and LAE on deductible policies		927		1,246
January 1, net		998,901		956,531
Incurred related to:				
Current year		618,000		534,120
Prior years		(36,558)		19,394
		581,442		553,514
Paid related to:				
Current year		226,994		185,799
Prior years		322,433		325,345
		549,427		511,144
December 31, net		1,030,916		998,901
Plus:				
Reinsurance recoverable, unpaid losses		93,936		72,065
Florida Special Disability Trust Fund recoverable (Note 9)		1,464		1,660
Salvage and subrogation recoverables		8,650		8,751
Retroactive reinsurance reserves assumed		1,732		1,939
Liability for loss and LAE on deductible policies		1,050		927
December 31, gross	$	1,137,748	$	1,084,243

Notes to Consolidated Financial Statements (in thousands)

Incurred loss and LAE represents the sum of paid losses and changes in the liability for loss and LAE in the calendar year. The liability for loss and LAE developed favorably in 2021 and unfavorably in 2020 by $36,558 and $19,394, due to better than and worse than anticipated experience on prior accident years, respectively.

The liability for loss and LAE are calculated by line of business and accident year and are established net of salvage, subrogation, and second injury funds.

Many factors affect the ultimate cost of claims, such factors include, but are not limited to, inflation, changes in laws and regulations, litigation and jury awards, changes in claimants' medical conditions and changes in medical technologies and procedures. There is inherent uncertainty in the estimate since many claims will not be settled for several years.

The Company regularly updates its loss and LAE liability estimates as new information becomes available and as events unfold that may affect the resolution of unsettled claims. Changes to the liability for losses and LAE are reflected in the results of operations in the period the estimates are changed. The Company uses generally accepted actuarial models to determine estimates of ultimate liabilities.

The tables that follow present, by accident year, cumulative incurred losses and allocated loss adjustment expenses on a historical basis. The information is presented, net of reinsurance and excludes unallocated loss adjustment expenses. Also provided are the historical average annual percentage payout of incurred losses by age, net of reinsurance, as supplementary information. Although the claim for which liabilities are established may not be paid for several years, the Company does not discount loss and LAE liabilities in its financial statements for the time value of money in accordance with GAAP. The information contained in the years preceding the current calendar year is unaudited. The IBNR amounts include the estimate for incurred but not reported liabilities and for expected development on reported cases. The cumulative number of reported losses includes the number of direct reported occurrence count, both open and closed, by major line of business and accident year.

Liability Lines

	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance *For the Years Ended December 31,*											Cumulative Number of Reported
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	IBNR	Claims
	Unaudited											
2012	$116,055	$121,830	$118,350	$116,250	$117,236	$115,223	$118,700	$118,323	$118,573	$118,505	$2,717	5,507
2013		129,759	121,278	119,006	119,210	119,273	123,837	123,423	124,755	124,404	3,754	6,171
2014			164,669	161,965	169,151	169,430	173,095	174,109	175,664	173,902	6,128	6,918
2015				193,491	200,107	200,705	208,061	207,114	207,932	207,213	9,485	8,183
2016					251,559	247,710	248,361	248,838	251,804	252,932	14,214	9,190
2017						244,503	236,417	244,911	252,308	253,043	19,129	8,971
2018							239,605	243,107	253,091	260,782	29,587	9,086
2019								263,016	270,589	272,696	40,203	8,968
2020									260,888	234,036	59,660	6,629
2021										333,243	111,135	6,797
									Total	$2,230,756		

	Cumulative Paid and Allocated Loss Adjustment Expense, Net of Reinsurance *For the Years Ended December 31,*									
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	Unaudited									
2012	$26,808	$60,233	$79,426	$89,599	$97,325	$105,460	$109,814	$110,913	$111,836	$113,088
2013		26,553	58,973	76,667	93,313	101,602	105,890	112,699	115,429	118,392
2014			31,351	77,179	108,812	128,524	143,913	153,235	156,579	159,536
2015				36,906	102,334	129,317	158,841	180,275	185,757	189,698
2016					43,040	102,008	153,656	182,875	203,273	216,733
2017						38,727	113,066	152,359	186,125	213,302
2018							44,052	105,722	155,125	195,812
2019								43,675	116,778	174,436
2020									34,775	86,400
2021										54,521
									Total	1,521,918
							All outstanding liabilities before 2012, net of reinsurance			17,877
							Liabilities for loss and loss adjustment expenses, net of reinsurance			$726,715

	Average Annual Percentage Payout of Incurred Loss by Age, Net of Reinsurance									
Years	1	2	3	4	5	6	7	8	9	10
	17.63%	26.38%	17.21%	12.58%	8.53%	4.73%	3.24%	1.61%	1.58%	1.06%

Notes to Consolidated Financial Statements (in thousands)

Workers' Compensation

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, 2012 (Unaudited)	2013 (Unaudited)	2014 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019	2020	2021	IBNR	Cumulative Number of Reported Claims
2012	$183,517	$170,628	$165,571	$166,257	$167,406	$169,445	$169,252	$169,006	$168,148	$168,849	$2,740	12,387
2013		186,661	173,015	172,470	173,654	173,295	173,118	172,001	170,332	170,687	4,404	11,597
2014			162,497	153,189	155,746	154,251	152,546	151,240	150,119	149,848	4,089	10,784
2015				175,710	173,426	174,287	174,213	171,845	170,045	169,717	4,450	10,601
2016					221,211	189,891	183,741	177,178	175,007	172,973	51,179	10,344
2017						184,367	152,670	144,583	139,150	136,632	5,866	9,499
2018							171,987	153,533	144, 932	142,164	6,919	8,656
2019								176,050	170,016	163,097	7,554	8,203
2020									144,215	128,788	11,136	6,419
2021										131,943	17,701	5,950
									Total	$1,534,698		

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, 2012 (Unaudited)	2013 (Unaudited)	2014 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019	2020	2021
2012	$57,982	$121,518	$142,092	$148,608	$154,089	$160,189	$162,113	$163,293	$164,270	$164,496
2013		61,971	122,886	146,279	158,843	161,622	163,770	163,772	164,336	164,599
2014			53,734	109,576	131,062	137,892	140,166	141,756	143,371	143,606
2015				52,179	120,750	141,680	153,991	160,615	163,085	163,973
2016					61,748	122,199	149,637	157,844	161,853	163,193
2017						49,434	102,364	120,403	125,523	127,410
2018							49,198	99,766	120,062	125,293
2019								58,440	114,870	137,075
2020									43,532	90,846
2021										43,781
									Total	1,324,272
									All outstanding liabilities before 2012, net of reinsurance	64,731
									Liabilities for loss and loss adjustment expenses, net of reinsurance	$275,157

Average Annual Percentage Payout of Incurred Loss by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
	34.66%	36.84%	13.69%	5.03%	2.33%	1.63%	0.69%	0.40%	0.37%	0.13%

Notes to Consolidated Financial Statements (in thousands)

Other Lines

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31, 2012 (Unaudited)	2013 (Unaudited)	2014 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019	2020	2021	IBNR	Cumulative Number of Reported Claims
2012	$46,384	$44,575	$43,500	$43,150	$43,056	$43,202	$43,213	$43,201	$43,199	$43,190	$ -	6,247
2013		52,318	50,991	49,866	49,305	49,023	48,958	48,922	48,906	48,906	-	6,955
2014			58,360	54,469	54,714	53,986	53,932	53,918	53,870	53,843	-	7,874
2015				72,566	69,251	67,016	67,050	66,804	66,872	66,606	-	8,995
2016					80,793	75,777	74,834	74,257	74,293	74,210	2	10,200
2017						101,953	103,141	104,699	104,818	104,967	11	10,620
2018							107,659	102,807	102,395	103,294	20	10,805
2019								90,626	88,482	85,582	161	10,255
2020									101,995	97,870	2,211	9,521
2021										123,946	11,120	9,212
									Total	$802,414		

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31, 2012 (Unaudited)	2013 (Unaudited)	2014 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2019	2020	2021
2012	$34,432	$42,370	$42,678	$42,973	$42,962	$43,096	$43,205	$43,196	$43,194	$43,190
2013		39,725	48,439	48,623	49,109	49,019	48,958	48,922	48,906	48,906
2014			41,811	51,962	54,090	53,968	53,898	53,898	53,870	53,843
2015				55,789	66,842	66,832	66,732	66,539	66,612	66,606
2016					58,527	73,066	74,167	74,141	74,177	74,153
2017						76,439	98,454	103,761	104,396	104,605
2018							80,324	99,688	101,021	102,937
2019								71,528	83,865	84,665
2020									80,469	94,622
2021										99,824
									Total	773,351
									All outstanding liabilities before 2012, net of reinsurance	(19)
									Liabilities for loss and loss adjustment expenses, net of reinsurance	$29,044

Average Annual Percentage Payout of Incurred Loss by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
	79.82%	17.76%	1.72%	0.53%	-0.06%	0.05%	0.03%	-0.03%	0.00%	-0.01%

Reconciliation of the net incurred loss and paid loss tables above to the liability for loss and LAE is as follows:

		2021
Net liability for unpaid loss and loss adjustment expenses:		
Liability Lines	$	726,715
Workers' Compensation		275,157
Other Lines		29,044
December 31, net	$	1,030,916

Notes to Consolidated Financial Statements (in thousands)

9. Florida Special Disability Trust Fund

The Florida Special Disability Trust Fund (SDTF) provides for the reimbursement of certain Florida workers' compensation claim costs related to injuries that occurred prior to 1998 and that aggravate or accelerate a preexisting injury or physical impairment. The Company submits claims to the SDTF, a Florida government trust fund for recovery of eligible claim costs. The SDTF is funded on a current basis through quarterly assessments imposed on insurance carriers, self-insurance funds, and self-insurers, based on Florida workers' compensation direct premiums written net of any related policyholder dividends.

The Company's receivable from the SDTF is comprised of the following three components:

		2021	2020
Amounts paid by the Company submitted to the SDTF pending reimbursement	$	24	248
Amounts paid by the Company not yet submitted to the SDTF		343	267
Amounts not yet paid by the Company		1,097	1,145
	$	1,464	1,660

The SDTF accepts submissions for recovery once per year for each subject claim.

For the years ended December 31, 2021 and 2020, assessments were $325 and $384, respectively, and the Company collected $616 and $346, respectively, in reimbursements.

10. Reinsurance

The Company has a reinsurance program that is intended to reduce overall risks, including exposure to large losses and catastrophic events. The Company limits the maximum net loss that can arise from claims by reinsuring certain levels of risks with reinsurers. In the ordinary course of business, the Company assumes premiums, losses and LAE from involuntary assigned risk pools.

The Company expects those companies with whom reinsurance has been placed to honor their obligations. However, in the event that all or any of the reinsuring companies are unable to meet their obligations for existing paid and unpaid loss recoverables, the Company would be liable for such defaulted amounts.

The following table summarizes reinsurance recoverables and prepaid reinsurance premium:

		2021		2020
Recoverable for loss and LAE reserves	$	93,935	$	72,065
Recoverable for paid loss and LAE		6,454		7,445
Prepaid reinsurance premium		5,961		6,010
	$	106,350	$	85,520

The following table summarizes the effect of reinsurance on premiums:

		Direct	Assumed	Ceded	Net
2021					
Written premiums	$	952,087	4,076	48,615	907,548
Earned premiums		927,380	4,172	48,665	882,887
2020					
Written premiums	$	900,977	5,615	44,628	861,964
Earned premiums		869,573	5,721	44,372	830,922

The following table summarizes the effect of reinsurance on loss and LAE incurred:

		Direct	Assumed	Ceded	Net
2021	$	633,882	2,445	54,885	581,442
2020	$	588,454	3,208	38,148	553,514

11. Income Tax

The components of income tax expense are as follows:

		2021	2020
Current income tax expense			
Federal	$	13,276	1,348
State		1,154	701
Total current income tax expense		14,430	2,049
Deferred income tax expense			
Federal		9,707	1,836
State		1,868	352
Total deferred income tax expense		11,575	2,188
Total income tax expense	$	26,005	4,237

Notes to Consolidated Financial Statements (in thousands)

The significant components of the net deferred income tax asset are as follows:

		2021	2020
Deferred income tax assets:			
Discount of unearned and advance premiums	$	20,007	18,830
Discount of liability for loss and LAE		19,917	20,141
Deferred compensation		5,790	5,519
Allowance for doubtful accounts		995	857
Accrued policyholder dividends		974	1,302
Unrealized loss on investment securities		612	612
Payroll tax deferral		370	661
Net state operating loss carryforwards		210	663
Subsequent injury tax		94	91
Other		2,438	2,877
Total gross deferred income tax assets		51,407	51,553
Less: valuation allowance		(204)	(655)
Total net deferred income tax assets		51,203	50,898
Deferred income tax liabilities:			
Change in market value of equity portfolio		29,310	17,462
Deferred policy acquisition costs		16,203	15,142
Unrealized gain on investment securities(1)		7,139	14,816
Depreciation and amortization		6,451	6,383
Loss reserve discount 8-year transition		5,280	6,599
Other		2,152	1,930
Total deferred income tax liabilities		66,535	62,332
Net deferred income tax liability	$	(15,332)	(11,434)

(1) Includes fixed maturity securities only.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset of $210 related to net operating losses in the state of Indiana, the Company will need to generate future Indiana taxable income of approximately $4,280 prior to the expiration of the net operating loss carryforwards in 2022 to 2025. Indiana taxable income for the years ended December 31, 2021 and 2020 was $29 and $39, respectively. Accordingly, management believes it is not more likely than not that this deferred tax asset will be realized and has recorded a valuation allowance. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the remaining deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2021. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

Following is a reconciliation of the provision for federal income tax at the U.S. corporate rate of 21% to the expense recorded:

		2021	Effective Tax Rate		2020	Effective Tax Rate
Expected tax	$	26,521	21.00%	$	13,974	21.00%
State income taxes, net of federal benefit		2,387	1.89		832	1.25
Tax-exempt interest		(1,281)	(1.01)		(1,319)	(1.98)
Tax credits		(1,264)	(1.00)		(9,021)	(13.56)
Permanent benefit of Section 847 repeal		-	-		(2)	-
Other, net		(358)	(0.29)		(227)	(0.34)
Actual income tax expense	$	26,005	20.59%	$	4,237	6.37%

The Company has adopted ASC 740-10-05, *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This guidance prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Management has evaluated their tax positions and has identifie a situation where it is "more likely than not" that the position taken will not be upheld. Therefore, the Company has recorded a reserve for uncertain tax positions (UTP) in the amount of $601. During 2021, the Company accrued $44 in UTP interest and penalties as a component of income tax expense. In the prior year, the Company recorded no UTP interest or penalties.

Notes to Consolidated Financial Statements (in thousands)

12. Debt

Lines of Credit/Credit Facility

Bank of America Line of Credit

The Company has a line of credit (LOC) from Bank of America, in the amount of $25,000 expiring on March 1, 2023. Bonds with a carrying value of $34,800 have been pledged as collateral. There was no balance outstanding on the LOC as of December 31, 2021 and 2020.

Federal Home Loan Bank Credit Facility

The Company is a member of the Federal Home Loan Bank of Atlanta (FHLB). As a requirement of membership, the Company owns FHLB stock in an amount that is adjusted annually based on the asset size of the Company. In addition to membership stock requirements, the FHLB also requires members to purchase additional FHLB stock in amounts equal to 4.5% of each advance. FHLB shares that are purchased at the time of an advance are automatically redeemed when the advance is repaid (proportionately if the advance is partially repaid). As of December 31, 2021 and 2020, the Company owned FHLB stock in the amount of $6,113 and $7,581, respectively. As of December 31, 2021, the Company's borrowing limit is $377,188. The Company's overall FHLB credit limit can fluctuate based on the Company's financial condition, and all balances must be adequately collateralized.

The Company's FHLB borrowings as of December 31, 2021 are summarized in the following table:

Description	Amount Outstanding	Date Issued	Maturity Date	Interest Rate
5-Year Fixed Rate Note	$ 10,000	9/10/2019	9/10/2024	1.919%
5-Year Fixed Rate Note	10,000	9/10/2019	9/10/2024	1.912%
7-Year Fixed Rate Note	32,000	9/10/2019	9/10/2026	2.078%
9-Year Fixed Rate Note	24,000	9/10/2019	9/11/2028	2.444%
10-Year Fixed Rate Note	23,750	9/10/2019	9/10/2029	2.606%
10-Year Fixed Rate Note	32,000	9/10/2019	9/10/2029	2.495%
	$ 131,750			

13. Retirement and Deferred Compensation Plans

Retirement and Savings Plan

The Company has a retirement and profit sharing plan (defined 401(k) contribution plan) for which all employees are eligible to participate. Employees, at their option, may contribute a portion of their eligible earnings to the plan, which may qualify for a matching contribution by the Company. Based on the Company's financial results, an additional discretionary profit sharing contribution may be made to all eligible employees' accounts. All contributions by the Company are restricted to amounts authorized annually by the Board of Directors. Retirement benefits are based on the balance in each employee's account, including the amount vested in employer 401(k) matching contributions and profit sharing contributions. The plan may be cancelled at any time at the option of the Company. The Company's net contributions to the plan for 2021 and 2020 were $7,172 and $7,133, respectively.

Long-Term Incentive Plan

Directors and officers are eligible participants under the Company's Long-Term Incentive Plan (Incentive Plan), which offers two types of performance-based incentive awards, a Full Value Performance Unit Award (Performance Units) and a Performance Unit Appreciation Rights Award (Appreciation Rights).

After satisfaction or lapse of the restrictions, terms, and conditions established by the Incentive Plan with respect to a grant of Performance Unit awards, the Incentive Plan participant will receive a cash payment equal to the number of Performance Units multiplied by a Company Value as of the exercise date as defined in the Incentive Plan. During 2021 and 2020, the Company recognized expense related to these units of $2,149 and $727, respectively. As of December 31, 2021 and 2020, the Company has a liability for the Performance Units outstanding of $10,299 and $10,295, respectively.

Appreciation Rights may be exercised subject to the terms of the Incentive Plan and upon exercise, the Incentive Plan participant will receive the number of Appreciation Rights exercised multiplied by the increase in Company Value as of the exercise date compared to the Company Value on the grant date. During 2021, the Company recognized expense related to Appreciation Rights of $5,964, and in 2020, the Company recognized a reduction in expense related to Appreciation Rights of $68. As of December 31, 2021 and 2020, the Company has a liability for the Appreciation Rights outstanding of $13,488 and $12,331, respectively.

Directors' Deferred Compensation Plan

Certain members of FGI's Board of Directors have entered into a deferred compensation plan, which includes a deferred compensation payment of three times the Directors' annual fees at retirement subject to certain vesting criteria, which is to be partially funded through a special grant of Performance Units, described above. During 2021 and 2020, the Company recognized a reduction in expense related to the deferred compensation plan of $81 and $20, respectively. As of December 31, 2021 and 2020, the Company's liability for such deferred compensation, not funded by Performance Units, was $298 and $331, respectively.

Costs for retirement and deferred compensation plans are allocated to each subsidiary based on the direct written premiums and the level of claim transactions to the totals for the consolidated company.

Notes to Consolidated Financial Statements (in thousands)

14. Regulation

The Company and its insurance company subsidiaries are regulated by state insurance departments and are subject to insurance statutes of their domiciliary states. The insurance companies are required to file financial statements with the state insurance departments prepared on an accounting basis prescribed or permitted by such regulators (statutory basis). Included among the applicable insurance laws and regulations with which the insurance companies must comply is the requirement that they maintain sufficient surplus, as defined by the states.

Risk-Based Capital

The National Association of Insurance Commissioners and the domiciliary states utilize risk-based capital (RBC) standards. RBC is a method of measuring the amount of capital and surplus appropriate for an insurer to support its overall business operations in light of its size and risk profile. Under RBC standards, risks specific to insurance companies in such areas as asset risk and underwriting risk are evaluated and compared to the insurance companies' capital and surplus to determine solvency margins. Regulators use RBC standards to initiate actions relating to insurers that show signs of weak or deteriorating financial condition. At December 31, 2021 and 2020, the insurance companies were adequately capitalized under the RBC requirements.

Combined net income and policyholders' surplus of the Company's insurance subsidiaries, as determined in accordance with statutory accounting practices, are as follows:

December 31,	2021	2020
Net income	$ 56,598	42,612
Policyholders' surplus	819,504	727,525

15. Commitments and Contingencies

Legal Proceedings

The Company's insurance subsidiaries are party to litigation and workers' compensation administrative proceedings involving claims arising in the normal course of business, none of which, in the opinion of management, will have a material adverse effect on the consolidated financial position, results of operations, or cash flows of the Company.

Capital Leases

In accordance with ASC 842, *Leases*, which the Company adopted as of January 1, 2021, the Company has recorded lease right-of-use assets and lease obligation liabilities for office facilities and office equipment based on the net present value of future lease payments. Such amounts were included in Land, building and equipment, net and Accrued expenses and other liabilities in the Consolidated Balance Sheet for the year ending December 31, 2021. In addition, a cumulative effect adjustment of $1,028 was recorded to beginning 2021 accumulated earnings under the optional transition method.

The weighted average term of these leases was approximately 3.2 years at December 31, 2021. The weighted average discount rate used to measure lease right-of-use assets and lease obligation liabilities was approximately 2.32% at December 31, 2021.

A summary of remaining lease payments and obligation as of December 31, 2021 follows:	Amount
2022	$ 2,492
2023	2,074
2024	1,494
2025	1,277
2026	908
Amount representing interest	(377)
Lease obligation liabilities	$ 7,868

COVID-19 Pandemic

The Company continues to evaluate the ongoing COVID-19 pandemic, but is unable to estimate the contingent financial impact at this time. Although most experts believe the worst of the pandemic is behind us, any continued adverse impact to our customers could affect our future operations, liquidity or financial condition.

16. Members' Equity

Accumulated Other Comprehensive Income (Loss)

The activity for the years ended December 31 in accumulated other comprehensive income (loss) is summarized below:

	Accumulated Other Comprehensive Income (Loss)
December 31, 2019	$ 24,918
Increase in unrealized gains on investments, net of taxes of $4,603	14,544
Reclassification adjustments for realized losses in net income, net of taxes of $2,326	7,348
December 31, 2020	46,810
Decrease in unrealized gains on investments, net of taxes of ($4,668)	(14,747)
Reclassification adjustments for realized losses in net income, net of taxes of ($3,010)	(9,508)
December 31, 2021	$ 22,555