

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, 2018

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-3722

ATLANTIC AMERICAN CORPORATION

(Exact name of registrant as specified in its charter)

Georgia

(State or other jurisdiction of incorporation or organization)

58-1027114

(I.R.S. Employer Identification No.)

4370 Peachtree Road, N.E.,

Atlanta, Georgia

(Address of principal executive offices)

30319

(Zip Code)

(Registrant's telephone number, including area code) (404) 266-5500

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

Title of each class	Name of exchange
Common Stock, par value \$1.00 per share	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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if a 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 common stock held by non-affiliates of the registrant as of June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was \$11,087,680. For purposes hereof, beneficial ownership is determined under rules adopted pursuant to Section 13 of the Securities Exchange Act of 1934, and the foregoing excludes value ascribed to common stock that may be deemed beneficially owned by the directors and executive officers, and 10% or greater stockholders, of the registrant, some of whom may not be deemed to be affiliates upon judicial determination. On March 15, 2019 there were 20,154,832 shares of the registrant's common stock, par value \$1.00 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the registrant's Proxy Statement for the 2019 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year end, have been incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

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PART I

Item 1. Business

The Company

Atlantic American Corporation, a Georgia corporation incorporated in 1968 (the “Parent” or “Company”), is a holding company that operates through its subsidiaries in well-defined specialty markets within the life and health and property and casualty insurance industries. The Parent’s principal operating subsidiaries are American Southern Insurance Company and American Safety Insurance Company (together known as “American Southern”) within the property and casualty insurance industry and Bankers Fidelity Life Insurance Company and Bankers Fidelity Assurance Company (together known as “Bankers Fidelity”) within the life and health insurance industry. Each of American Southern and Bankers Fidelity is managed separately based upon the type of products it offers, and is evaluated on its individual performance. The Company’s strategy is to focus on well-defined geographic, demographic and/or product niches within the insurance marketplace. Each of American Southern and Bankers Fidelity operates with relative autonomy, which structure is designed to allow for quick reaction to market opportunities.

The Parent has no significant business operations of its own and relies on fees, dividends and other distributions from its operating subsidiaries as the principal source of cash flow to meet its obligations. Additional information regarding the cash flow and liquidity needs of the Parent can be found in the Liquidity and Capital Resources section of Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Property and Casualty Operations

American Southern comprises the Company’s property and casualty operations and its primary product lines are as follows:

Business Automobile Insurance policies provide bodily injury and/or property damage liability coverage, uninsured motorist coverage and physical damage coverage for commercial accounts.

General Liability Insurance policies cover bodily injury and property damage liability for both premises and completed operations exposures for general classes of business.

Surety Bonds are contracts under which one party, the insurance company issuing the surety bond, guarantees to a third party that the primary party will fulfill an obligation in accordance with a contractual agreement. This obligation may involve meeting a contractual commitment, paying a debt or performing certain duties.

American Southern provides tailored business automobile insurance coverage, on a multi-year contract basis, to state governments, local municipalities and other large motor pools and fleets (“block accounts”) that can be specifically rated and underwritten. The size of the block accounts insured by American Southern are generally such that individual class experience can be determined, which allows for customized policy terms and rates. American Southern is licensed to do business in 32 states and the District of Columbia. While the majority of American Southern’s premiums are derived from its automobile lines of business, American Southern also offers inland marine and general liability coverages. Additionally, American Southern directly provides surety bond coverage for school bus transportation and subdivision construction, as well as performance and payment bonds.

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The following table summarizes, for the periods indicated, the allocation of American Southern's net earned premiums from each of its principal product lines:

	<u>Year Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>(In thousands)</u>	
Automobile liability	\$ 28,840	\$ 29,370
Automobile physical damage	11,922	9,972
General liability	2,920	2,953
Surety	7,170	8,441
Other lines	2,955	2,925
Total	<u>\$ 53,807</u>	<u>\$ 53,661</u>

Life and Health Operations

Bankers Fidelity comprises the life and health operations of the Company and offers a variety of life and supplemental health products. Products offered by Bankers Fidelity include ordinary and term life insurance, Medicare supplement and other accident and health insurance products. Health insurance products, primarily Medicare supplement insurance, accounted for 93% of Bankers Fidelity's net earned premiums in 2018 while life insurance, including both whole and term life insurance policies, accounted for the balance. In terms of the number of policies written in 2018, 97% were health insurance policies and 3% were life insurance policies.

The following table summarizes, for the periods indicated, the allocation of Bankers Fidelity's net earned premiums from each of its principal product lines followed by a brief description of the principal products:

	<u>Year Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>(In thousands)</u>	
Life insurance	\$ 8,921	\$ 9,574
Medicare supplement	102,658	93,652
Other accident and health	7,545	6,440
Total health insurance	110,203	100,092
Total	<u>\$ 119,124</u>	<u>\$ 109,666</u>

Life Insurance products include non-participating individual term and whole life insurance policies with a variety of riders and options. Policy premiums are dependent upon a number of factors, including issue age, level of coverage and selected riders or options.

Medicare Supplement Insurance includes 8 of the 11 standardized Medicare supplement policies created under the Medicare Improvements for Patients and Providers Act of 2008 ("MIPPA"), which are designed to provide insurance coverage for certain expenses not covered by the Medicare program, including copayments and deductibles.

Other Accident and Health Insurance coverages include several individual and group policies providing for the payment of standard benefits in connection with the treatment of diagnosed cancer and other critical illnesses, as well as a number of other policies providing nursing facility care, accident expense, hospital indemnity and disability coverages.

Marketing

Property and Casualty Operations

A portion of American Southern's business is marketed through a small number of specialized, experienced independent agents. American Southern's agent selection process is actively managed by internal marketing personnel with oversight from management. Senior management carefully reviews all new programs prior to acceptance. Most of American Southern's agents are paid an up-front commission with the potential for additional commissions by participating in a profit sharing arrangement that is directly linked to the profitability

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of the underlying business. American Southern also solicits business from governmental entities. As an experienced writer of insurance policies for certain governmental programs, the company actively pursues this market on a direct basis. Much of this business is priced by means of competitive bid situations and there can be no assurance with respect to ultimate profitability or that the company can obtain or retain such business at the time of a specific contract renewal.

Life and Health Operations

Bankers Fidelity acquires its clientele through three distribution channels spread across 46 different states and two business divisions, all of which utilize commissioned, independent agents. The three distribution channels include traditional independent agents, brokers typically interested in a specific product of Bankers Fidelity and brokers who focus on sales within the group/employer benefits arena of BankersWorksite, all of which are responsible for their own marketing and sales activities. Contracting as independent agents enables Bankers Fidelity to effectively expand or contract its sales force without incurring significant expense.

Bankers Fidelity had 7,290 licensed agents contracted in both senior market and worksite divisions as of December 31, 2018. During 2018, approximately 2,297 of these licensed agents wrote policies on behalf of Bankers Fidelity.

Bankers Fidelity's marketing and distribution strategy revolves around five pillars: Diversification, Differentiation, Quality, Retention and Profitability.

Diversification. Through unique product offerings such as the Vantage Recovery®, short-term care product and a group whole life product featuring a chronic illness rider, the Company is able to offer its distributors an array of products to sell that stand out from the competition. As the Company continues to expand its geographical footprint with agents and products, one of its main objectives is to have a healthy mix of all of its product lines nationwide.

Differentiation. Bankers Fidelity prides itself on the quality of Customer Service it offers to policyholders and agents. A dedicated agent support team is available to the field to support them on administration, underwriting, sales training, product questions and a plethora of other services which differentiates the Company from other carriers. Additionally, a customer loyalty team is available solely to serve insureds for any of their insurance needs. Unlike larger carriers, Bankers Fidelity prides itself on being agile which helps to quickly execute senior management's initiatives.

Quality. Bankers Fidelity is focused on being a niche carrier that delivers superior service, quality products and innovative solutions. Sophisticated technology and reporting allows the home office teams to work with the sales force to deliver a tailored experience and phenomenal customer service.

Retention. Through seasonal campaigns and customer outreach, the Company is focused on client retention and servicing its policyholder's through various stages in their life. By providing its agents with an innovative product portfolio they are able to meet the needs of our policyholders at all stages of their lives.

Profitability. In an effort to be sustainable in the marketplace as a long-term partner, senior management is focused on diversification, differentiation, quality and retention to ultimately service its policyholders and agents and provide security to home office employees.

Underwriting

Property and Casualty Operations

American Southern specializes in underwriting various risks that are sufficiently large enough to establish separate class experience, relying upon the underwriting expertise of its agents.

During the course of the policy life, extensive use is made of risk management representatives to assist commercial underwriters in identifying and correcting potential loss exposures and to physically inspect new accounts. The underwriting results from each insured are reviewed on an individual basis periodically. When results are below expectations, management takes corrective action which may include adjusting rates, revising underwriting standards, adjusting commissions paid to agents, and/or altering or declining to renew accounts at expiration.

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Life and Health Operations

Bankers Fidelity issues a variety of products that span from the worksite markets to the senior markets for both life and health insurance. Products offered by Bankers Fidelity include life insurance, typically with small face amounts, Medicare supplement and other accident and health insurance. Bankers Fidelity also provides an array of worksite products such as accident, cancer, critical illness, hospital indemnity and life insurance that is offered to employers who are looking to provide coverage for their employees and have the related premiums deducted through payroll deductions.

The majority of the products are underwritten on a non-medical basis using a simplified issue approach by which an application containing a variety of health related questions is submitted. Applications for insurance are reviewed to determine the face amount, age, medical history and any other necessary information. Bankers Fidelity utilizes information obtained directly from the insured, the Medical Information Bureau, prescription utilization reports as well as telephone interviews to determine whether an applicant meets the company's underwriting criteria. Bankers Fidelity may also utilize medical records and investigative services to supplement and substantiate information, as necessary.

Policyholder and Claims Services

The Company believes that prompt, efficient policyholder and claims services are essential to its continued success in marketing its insurance products (see "Competition"). Additionally, the Company believes that its insureds are particularly sensitive to claims processing time and to the accessibility of qualified staff to answer inquiries. Accordingly, the Company's policyholder and claims services seek to offer expeditious disposition of service requests by providing toll-free access for all customers, 24-hour claim reporting services, and direct computer links with some of its largest accounts. The Company also utilizes an automatic call distribution system to ensure that inbound calls to customer service support groups are processed efficiently. Operational data generated from this system allows management to further refine ongoing client service programs and service representative training modules.

Property and Casualty Operations

American Southern controls its claims costs by utilizing an in-house staff of claims supervisors to investigate, verify, negotiate and settle claims. Upon notification of an occurrence purportedly giving rise to a claim, a claim file is established. The claims department then conducts a preliminary investigation, determines whether an insurable event has occurred and, if so, updates the file for the findings and any required reserve adjustments. Frequently, independent adjusters and appraisers are utilized to service claims which require on-site inspections.

Life and Health Operations

Insureds may obtain claim forms by calling the claims department customer service group or through Bankers Fidelity's website. To shorten claim processing time, a letter detailing all supporting documents that are required to complete a claim for a particular policy is sent to the customer along with the correct claim form. With respect to life policies, the claim is entered into Bankers Fidelity's claims system when the proper documentation is received. Properly documented claims are generally paid within five business days of receipt. With regard to Medicare supplement policies, the claim is either directly billed to Bankers Fidelity by the provider or sent electronically through a Medicare clearing house.

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Reserves

Reserves are set by line of business within each of the subsidiaries. At December 31, 2018, approximately 68% of the reserves related to property and casualty losses and approximately 32% related to life and health losses. The Company's property and casualty operations incur losses which may take extended periods of time to evaluate and settle. Issues with respect to legal liability, actual loss quantification, legal discovery and ultimate subrogation, among other factors, may influence the initial and subsequent estimates of loss. In the property and casualty operations, the Company's general practice is to reserve at the higher end of the determined reasonable range of loss if no other value within the range is determined to be more probable. The Company's life and health operations generally incur losses which are more readily quantified. Medical claims received are recorded in case reserves based on contractual terms using the submitted billings as a basis for determination. Life claims are recorded based on contract value at the time of notification to the Company; although policy reserves related to such contracts have been previously established. Individual case reserves are established by a claims processor on each individual claim and are periodically reviewed and adjusted as new information becomes known during the course of handling a claim. Regular internal periodic reviews are also performed by management to ensure that loss reserves are established and revised timely relative to the receipt of new or additional information. Lines of business for which loss data (e.g. paid losses and case reserves) emerge over a long period of time are referred to as long-tail lines of business. Lines of business for which loss data emerge more quickly are referred to as short-tail lines of business. The Company's long-tail line of business generally consists of its general liability coverage while the short-tail lines of business generally consist of property and automobile coverages.

The Company's actuaries regularly review reserves for both current and prior accident years using the most current claims data. These reviews incorporate a variety of actuarial methods (discussed in Critical Accounting Policies) and judgments and involve a disciplined analysis. For most lines of business, certain actuarial methods and specific assumptions are deemed more appropriate based on the current circumstances affecting that line of business. These selections incorporate input from claims personnel and operating management on reported loss cost trends and other factors that could affect the reserve estimates.

For long-tail lines of business, the emergence of paid losses and case reserves is less credible in the early periods, and accordingly may not be indicative of ultimate losses. For these lines, methods which incorporate a development pattern assumption are given less weight in calculating incurred but not reported ("IBNR") reserves for the early periods of loss emergence because such a low percentage of ultimate losses are reported in that time frame. Accordingly, for any given accident year, the rate at which losses on long-tail lines of business emerge in the early periods is generally not as reliable an indication of ultimate losses as it would be for shorter-tail lines of business. The estimation of reserves for these lines of business in the early periods of loss emergence is therefore largely influenced by statistical analyses and application of prior accident years' loss ratios, after considering changes to earned pricing, loss costs, mix of business, ceded reinsurance and other factors that are expected to affect the estimated ultimate losses. For later periods of loss emergence, methods which incorporate a development pattern assumption are given more weight in estimating ultimate losses. For short-tail lines of business, the emergence of paid loss and case reserves is more credible in the early periods and is more likely to be indicative of ultimate losses. The method used to set reserves for these lines of business is based upon utilization of a historical development pattern for reported losses. IBNR reserves for the current year are set as the difference between the estimated fully developed ultimate losses for each year, less the established, related case reserves and cumulative related payments. IBNR reserves for prior accident years are similarly determined, again relying on an indicated, historical development pattern for reported losses.

Based on the results of regular reserve estimate reviews, the Company determines the appropriate reserve adjustment, if any, to record in each period. If necessary, recorded reserve estimates are changed after consideration of numerous factors, including, but not limited to, the magnitude of the difference between the actuarial indication and the recorded reserves, improvement or deterioration of actuarial indication in the period, the maturity of the accident year, trends observed over the recent past and the level of volatility within a particular line of business. In general, changes are made more quickly to recognize changes in estimates to ultimate losses in mature accident years and less volatile lines of business.

Estimating case reserves and ultimate losses involves various considerations which differ according to the line of business. In addition, changes in legislative and regulatory environments may impact loss estimates. General liability claims may have a long pattern of loss emergence. Given the broad nature of potential general liability coverages, investigative time periods may be extended and questions of coverage may exist. Such

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uncertainties create greater imprecision in estimating required levels of loss reserves. The property and automobile lines of business generally have less variable reserve estimates than other lines. This is largely due to the coverages having relatively shorter periods of loss emergence. Estimates, however, can still vary due to a number of factors, including interpretations of frequency and severity trends. Severity trends can be impacted by changes in internal claim handling and reserving practices in addition to changes in the external environment. These changes in claim practices increase the uncertainty in the interpretation of case reserve data, which increases the uncertainty in recorded reserve levels.

The Company's policy is to record reserves for losses and claims in amounts which approximate actuarial best estimates of ultimate values. Actuarial best estimates do not necessarily represent the midpoint value determined using the various actuarial methods; however, such estimates will fall between the estimated low and high end reserve values. The range of estimates developed in connection with the December 31, 2018 actuarial review indicated that reserves could be as much as 6.6% lower or as much as 10.2% higher. In the opinion of management, recorded reserves represent the best estimate of outstanding losses, although significant judgments are made in the derivation of reserve estimates and revisions to such estimates are expected to be made in future periods. Any such revisions could be material, and may materially adversely affect the Company's financial condition and results of operations in any future period.

Property and Casualty Operations

American Southern maintains loss reserves representing estimates of amounts necessary for payment of losses and loss adjustment expense ("LAE"), and which are not discounted. IBNR reserves are also maintained for future development. These loss reserves are estimates, based on known facts and circumstances at a given date, of amounts the Company expects to pay on incurred claims. All balances are reviewed periodically by the Company's independent consulting actuary. Reserves for LAE are intended to cover the ultimate costs of settling claims, including investigation and defense of any lawsuits resulting from such claims. Loss reserves for reported claims are based on a case-by-case evaluation of the type of claim involved, the circumstances surrounding the claim, and the policy provisions relating to the type of loss along with anticipated future development. The LAE for claims reported and claims not reported is based on historical statistical data and anticipated future development. Inflation and other factors which may affect claim payments are implicitly reflected in the reserving process through analysis and consideration of cost trends and reviews of historical reserve results.

American Southern establishes reserves for claims based upon: (a) management's estimate of ultimate liability and claims adjusters' evaluations of unpaid claims reported prior to the close of the accounting period, (b) estimates of IBNR claims based on past experience, and (c) estimates of LAE. If no value is determined to be more probable in estimating a loss after considering all factors, the Company's general practice is to reserve at the higher end of the determined reasonable range of loss. The estimated liability is periodically reviewed and updated, and changes to the estimated liability are recorded in the statement of operations in the period in which such changes become known.

Life and Health Operations

Bankers Fidelity establishes liabilities for future policy benefits to meet projected future obligations under outstanding policies. These reserves are calculated to satisfy policy and contract obligations as they mature. The amount of reserves for insurance policies is calculated using assumptions for interest rates, mortality and morbidity rates, expenses, and withdrawals. Reserves are adjusted periodically based on published actuarial tables with modifications to reflect actual experience. The use of significantly different assumptions, or actual results that differ significantly from our estimates, could materially adversely affect our liquidity, results of operations or financial condition.

See Note 5 of Notes to Consolidated Financial Statements for more information on insurance reserves and policyholder funds.

Reinsurance

The Company's insurance subsidiaries from time to time purchase reinsurance from unaffiliated insurers and reinsurers to reduce their potential liability on individual risks and to protect against catastrophic losses. In a reinsurance transaction, an insurance company transfers, or "cedes," a portion or all of its exposure on insurance policies to a reinsurer. The reinsurer assumes the exposure in return for a portion of the premiums. The ceding of

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insurance does not legally discharge the insurer from primary liability for the full amount of the policies written by it, and the ceding company will incur a loss if the reinsurer fails to meet its obligations under the reinsurance agreement.

Property and Casualty Operations

American Southern's basic reinsurance treaties generally cover all claims in excess of specified per occurrence limitations. Limits per occurrence within the reinsurance treaties are as follows: Inland marine and commercial automobile physical damage - \$175,000 excess of \$75,000 retention; and automobile liability and general liability - excess coverage of \$2.0 million less retentions that may vary from \$100,000 to \$200,000 depending on the account. American Southern maintains a property catastrophe treaty with a \$5.7 million limit excess of \$300,000 retention. American Southern also issues individual surety bonds with face amounts generally up to \$1.5 million, and limited to \$5.0 million in aggregate per account, that are not reinsured.

Life and Health Operations

Bankers Fidelity has entered into reinsurance contracts ceding the excess of its life retention to several primary reinsurers. Maximum retention by Bankers Fidelity on any one individual in the case of life insurance policies is \$100,000. At December 31, 2018, \$12.3 million of the \$232.2 million of life insurance in force at Bankers Fidelity was reinsured under a mix of coinsurance and yearly renewable term agreements. Certain prior year reinsurance agreements also remain in force although they no longer provide reinsurance for new business.

Bankers Fidelity has also entered into a reinsurance contract ceding excess new Medicare supplement business to General Re Life Corporation. Ceding thresholds are set annually. At December 31, 2018, the 2018 retention threshold was \$15.0 million of annualized premium; accordingly \$20.8 million of the company's \$35.8 million of new annualized Medicare supplement premium was ceded.

Competition

Competition for insurance products is based on many factors including premiums charged, terms and conditions of coverage, service provided, financial ratings assigned by independent rating agencies, claims services, reputation, perceived financial strength and the experience of the organization in the line of business being written.

Property and Casualty Operations

The businesses in which American Southern engages are highly competitive. The principal areas of competition are pricing and service. Many competing property and casualty companies, which have been in business longer than American Southern, offer more diversified lines of insurance and have substantially greater financial resources. Management believes, however, that the policies it sells are competitive with those providing similar benefits offered by other insurers doing business in the states in which American Southern operates. American Southern attempts to develop strong relationships with its agents and, consequently, believes it is better positioned for new opportunities and programs with those agents.

Life and Health Operations

The life and health insurance business remains highly competitive and includes a large number of insurance companies, many of which are new entrants to the business of providing Medicare supplement and other accident and health insurance products. Bankers Fidelity has established itself as a trusted carrier of choice for its customers providing quality and sustainability for nearly 65 years.

In order to compete, Bankers Fidelity actively seeks opportunities in niche markets, developing long-term relationships with a select number of independent marketing organizations. Additionally, Bankers Fidelity actively promotes BankersWorksite, the group benefits division, as well as selective association partnerships. It competes with other insurers to attract and retain the allegiance of its independent agents through commission and sales incentive arrangements, accessibility and marketing assistance, lead programs, reputation and market expertise. Bankers Fidelity successfully competes in its chosen markets by establishing relationships with independent agents and providing proprietary marketing initiatives as well as providing outstanding service to policyholders.

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Ratings

Ratings of insurance companies are not designed for investors and do not constitute recommendations to buy, sell, or hold any security. Ratings are important measures within the insurance industry, and higher ratings should have a favorable impact on the ability of a company to compete in the marketplace.

Each year A.M. Best Company, Inc. (“A.M. Best”) publishes Best’s Insurance Reports, which includes assessments and ratings of all insurance companies. A.M. Best’s ratings, which may be revised or revoked at any time, follow a graduated scale of rating categories and notches ranging from A++ (Superior) to F (in liquidation). A.M. Best’s ratings are based on a detailed analysis of the statutory financial condition and operations of an insurance company compared to the industry in general.

American Southern. American Southern Insurance Company and its wholly-owned subsidiary, American Safety Insurance Company, are each, as of the date of this report, rated “A” (Excellent) by A.M. Best.

Bankers Fidelity. Bankers Fidelity Life Insurance Company and its wholly-owned subsidiary, Bankers Fidelity Assurance Company, are each, as of the date of this report, rated “A-” (Excellent) by A.M. Best.

Regulation

In common with all domestic insurance companies, the Company’s insurance subsidiaries are subject to regulation and supervision in the jurisdictions in which they do business. Statutes typically delegate regulatory, supervisory, and administrative powers to state insurance commissioners. The method of such regulation varies, but regulation relates generally to the licensing of insurers and their agents, the nature of and limitations on investments, approval of policy forms, reserve requirements, the standards of solvency to be met and maintained, deposits of securities for the benefit of policyholders, and periodic examinations of insurers and trade practices, among other things. The Company’s products generally are subject to rate regulation by state insurance commissions, which require that certain minimum loss ratios be maintained. Certain states also have insurance holding company laws which require registration and periodic reporting by insurance companies controlled by other corporations licensed to transact business within their respective jurisdictions. The Company’s insurance subsidiaries are subject to such legislation and are registered as controlled insurers in those jurisdictions in which such registration is required. Such laws vary from state to state, but typically require periodic disclosure concerning the corporation which controls the registered insurers and all subsidiaries of such corporations, as well as prior notice to, or approval by, the state insurance commissioners of intercorporate transfers of assets (including payments of dividends by the insurance subsidiaries in excess of specified amounts) within the holding company system. The Company believes it is in compliance with all such requirements.

Most states require that rate schedules and other information be filed with the state’s insurance regulatory authority, either directly or through a ratings organization with which the insurer is affiliated. The regulatory authority may disapprove a rate filing if it determines that the rates are inadequate, excessive, or discriminatory. The Company has historically experienced no significant regulatory resistance to its applications for rate adjustments; however, the Company cannot provide any assurance that it will not receive any objections to any applications in the future.

A state may require that acceptable securities be deposited for the protection either of policyholders located in those states or of all policyholders. As of December 31, 2018, the Company was in compliance with all such requirements, and securities with an amortized cost of \$10.5 million were on deposit either directly with various state authorities or with third parties pursuant to various custodial agreements on behalf of the Company’s insurance subsidiaries.

Virtually all of the states in which the Company’s insurance subsidiaries are licensed to transact business require participation in their respective guaranty funds designed to cover claims against insolvent insurers. Insurers authorized to transact business in these jurisdictions are generally subject to assessments of up to 4% of annual direct premiums written in that jurisdiction to pay such claims, if any. The likelihood and amount of any future assessments cannot be estimated until an insolvency has occurred.

NAIC Ratios

The National Association of Insurance Commissioners (the “NAIC”) was established to, among other things, provide guidelines to assess the financial strength of insurance companies for state regulatory purposes.

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The NAIC conducts annual reviews of the financial data of insurance companies primarily through the application of financial ratios prepared on a statutory basis. Annual statements are required to be submitted to state insurance departments to assist them in monitoring insurance companies in their state and to allow such states to determine a desirable range for each such ratio with which companies should comply.

The NAIC developed the Insurance Regulatory Information System (“IRIS”) to help state regulators identify companies that may require regulatory attention. Financial examiners review annual financial statements and the results of key financial ratios based on year-end data with the goal of identifying insurers that appear to require immediate regulatory attention. Each ratio has an established “usual range” of results. A ratio result falling outside the usual range, however, is not necessarily considered adverse; rather, unusual values are used as part of the regulatory early monitoring system. Furthermore, in some years, it may not be unusual for financially sound companies to have several ratios with results outside the usual ranges. Generally, an insurance company may become subject to regulatory scrutiny or, depending on the company’s financial condition, regulatory action if certain of its key IRIS ratios fall outside the usual ranges and the insurer’s financial condition is trending downward.

For the year ended December 31, 2018, Bankers Fidelity had two ratios outside the usual range, primarily as a result of a decline in net income and net change in surplus before considering paid in amounts. Accordingly, the gross change in surplus after considering paid in amounts fell in the usual range. American Southern had no IRIS ratios outside the usual ranges. Management does not anticipate regulatory action as a result of the 2018 IRIS ratio results for the insurance subsidiaries.

Risk-Based Capital

Risk-based capital (“RBC”) is a metric used by ratings agencies and regulators as an early warning tool to identify weakly capitalized companies for the purpose of initiating further regulatory action. The RBC calculation determines the amount of adjusted capital needed by a company to avoid regulatory action. “Authorized Control Level Risk-Based Capital” (“ACL”) is calculated, and if a company’s adjusted capital is 200% or lower than ACL, it is subject to regulatory action. At December 31, 2018, the Company’s insurance subsidiaries, RBC levels exceeded the required regulatory levels.

Information Technology and Cybersecurity

The Company’s operations rely on the secure processing, storage, and transmission of confidential and personal identifiable information within technology platforms. Cybersecurity is a high priority and the Company has made significant investments in order to prevent, detect, and respond to cyber threats. In recent years, the Company has enhanced intrusion protection and detection technology, infrastructure and application firewalls, and network monitoring. The Company has also installed advanced endpoint threat protection technology and implemented a mandatory security awareness training program for all employees. Employees are also subject to periodic phishing tests.

The Company has a sophisticated technology environment that supports the replication of data across multiple secure data centers. This includes a comprehensive disaster recovery plan that is continually tested to ensure capabilities to resume business in the event of a disaster. The Company’s technology environment is managed by an experienced team of professionals who follow an extensive set of policies and procedures related to data security. Through recurring internal and external audits, controls are regularly reviewed, tested, and enhanced to ensure best practices. The Company has augmented the information security program through a partnership with a leading global cybersecurity provider to review and implement additional services such as Security Event Monitoring, Advanced Endpoint Threat Detection, Incident Management Retainer Services, and Strategic Advisory Services focused on Chief Information Security Officer (CISO) duties such as counter-threat intelligence.

The information security program also includes a cybersecurity Incident Response Plan (“IRP”) that was established to help protect the integrity, availability and confidentiality of information, prevent loss of service, and comply with legal requirements. The IRP specifies the process for identifying and reporting an incident, initial investigation, risk classification, documentation and communication of incidents, responder procedures, incident reporting, and ongoing training. Additionally, the IRP specifies the notification to directors, officers, and other corporate insiders to not trade the Company’s securities while in possession of potentially material nonpublic information about the incident.

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The Audit Committee of the Board of Directors has oversight of the Company's information security program. The Company's senior officers, including its Chief Information Officer, are responsible for the operation of the information security program and regularly communicate with the Audit Committee on the state of the program.

The Company also maintains insurance coverage for Privacy Wrongful Acts and Network Security Wrongful Acts which includes Breach Response Services (Call Center Services, Credit Monitoring, Identity Theft Resolution Services and Notice to affected individuals). The Company has additional coverage for supplemental privacy coverage costs including Breach Consultation Services, PR costs, Network Extortion, Notification Costs outside the US, Data Forensic Costs and Regulatory Fines and Penalties.

Investments

Investment income represents a significant portion of the Company's operating and total income. Insurance company investments are subject to state insurance laws and regulations which limit the concentration and types of investments. The following table provides information on the Company's investments as of the dates indicated.

	December 31,			
	2018		2017	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 27,422	11.3%	\$ 31,155	12.6%
States, municipalities and political subdivisions	8,364	3.5	10,809	4.4
Public utilities	13,524	5.6	14,935	6.0
All other corporate bonds	160,884	66.5	158,017	63.8
Redeemable preferred stock	192	0.1	192	0.1
Total fixed maturities ⁽¹⁾	210,386	87.0	215,108	86.9
Common and non-redeemable preferred stocks ⁽²⁾	20,758	8.6	23,355	9.4
Policy loans ⁽³⁾	2,085	0.9	2,146	0.9
Other invested assets ⁽⁴⁾	7,424	3.0	5,626	2.3
Real estate	38	0.0	38	0.0
Investments in unconsolidated trusts	1,238	0.5	1,238	0.5
Total investments	\$ 241,929	100.0%	\$ 247,511	100.0%

⁽¹⁾ Fixed maturities are carried on the balance sheet at estimated fair value. Certain fixed maturities do not have publicly quoted prices, and are carried at estimated fair value as determined by management. Total adjusted cost of fixed maturities was \$219.9 million as of December 31, 2018 and \$212.5 million as of December 31, 2017.

⁽²⁾ Equity securities are carried on the balance sheet at estimated fair value. Total adjusted cost of equity securities was \$10.5 million as of December 31, 2018 and \$10.9 million as of December 31, 2017.

⁽³⁾ Policy loans are valued at unpaid principal balances.

⁽⁴⁾ Other invested assets are accounted for using the equity method. Total adjusted cost of other invested assets was \$7.4 million as of December 31, 2018 and \$5.6 million as of December 31, 2017.

Estimated fair values are determined as discussed in Note 1 of Notes to Consolidated Financial Statements.

Results of the Company's investment portfolio for periods shown were as follows:

	Year Ended December 31,	
	2018	2017
	(Dollars in thousands)	
Average investments ⁽¹⁾	\$ 252,480	\$ 247,739
Net investment income	9,549	8,496
Average yield on investments	3.8%	3.4%
Realized investment gains, net	5,154	9,168

⁽¹⁾ Calculated as the average of cash and investment balances (at amortized cost) at the beginning of the year and at the end of each of the succeeding four quarters.

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Management's recent investment strategy has been a continued focus on quality, diversification and higher yielding corporate bonds and preferred stocks; but at the same time shortening up on maturities to give recognition to the rise and potential future increases in longer-term interest rates.

Employees

The Company and its subsidiaries employed 161 people at December 31, 2018. Of the 161 people employed at December 31, 2018, 155 were full-time.

Financial Information by Industry Segment

Each of American Southern and Bankers Fidelity operate with relative autonomy and each company is evaluated on its individual performance. American Southern operates in the property and casualty insurance market, while Bankers Fidelity operates in the life and health insurance market. Each segment derives revenue from the collection of premiums, as well as from investment income. Substantially all revenue other than that in the corporate and other segment is from external sources. See Note 15 of Notes to Consolidated Financial Statements.

Available Information

The Company files annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports and other information with the Securities and Exchange Commission (the "SEC"). The public can read and obtain copies of those materials by visiting the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements and other information regarding issuers like the Company that file electronically with the SEC. The address of the SEC's web site is www.sec.gov. In addition, as soon as reasonably practicable after such materials are filed with or furnished to the SEC by the Company, the Company makes copies available to the public, free of charge, on or through its web site at www.atlam.com. Neither the Company's website, nor the information appearing on the website, is included, incorporated into, or a part of, this report.

Executive Officers of the Registrant

The table below and the information following the table set forth, for each executive officer of the Company as of December 31, 2018, his name, age, positions with the Company and business experience for the past five years, as well as any prior service to the Company.

Name	Age	Positions with the Company	Director or Officer Since
Hilton H. Howell, Jr.	56	Chairman of the Board, President & CEO	1992
J. Ross Franklin	41	Vice President, CFO and Corporate Secretary	2017

Officers are elected annually and serve at the discretion of the board of directors.

Mr. Howell has been President and Chief Executive Officer of the Company since May 1995, and prior thereto served as Executive Vice President of the Company from October 1992 to May 1995. He has been a Director of the Company since October 1992 and effective February 24, 2009, began serving as Chairman of the board of directors. He is also a chairman of the board, and serves as chief executive officer, of Gray Television, Inc.

Mr. Franklin has been Vice President, Chief Financial Officer and Corporate Secretary of the Company since November 2017, and prior thereto served as Interim Chief Financial Officer from August 2017 to November 2017. Since 2000 he has held various roles of increasing responsibility with Atlantic American and its subsidiaries, previously serving as Vice President, Accounting and Treasurer of Bankers Fidelity since 2009.

Forward-Looking Statements

Certain of the statements contained or incorporated by reference herein are forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are made pursuant to the

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safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Exchange Act of 1933, and Section 21E of the Securities Act of 1934, and include estimates and assumptions related to, among other things, general economic, competitive, operational and legislative developments. Forward-looking statements are subject to changes and uncertainties which are, in many instances, beyond the Company's control and have been made based upon management's current expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with management's expectations or that the effect of future developments on the Company will be those anticipated by management. Actual results could differ materially from those expected by the Company, depending on the occurrence or outcome of various factors. These factors include, among others: significant changes in general economic conditions; the possible occurrence of terrorist attacks; unexpected developments in the health care or insurance industries affecting providers or individuals, including the cost or availability of services, or the tax consequences related thereto; disruption to the financial markets; unanticipated increases in the rate, number and amounts of claims outstanding; the level of performance of reinsurance companies under reinsurance contracts and the availability, pricing and adequacy of reinsurance to protect the Company against losses; changes in the stock markets, interest rates or other financial markets, including the potential effect on the Company's statutory capital levels; the uncertain effect on the Company of regulatory and market-driven changes in practices relating to the payment of incentive compensation to brokers, agents and other producers; the incidence and severity of catastrophes, both natural and man-made; stronger than anticipated competitive activity; unfavorable judicial or legislative developments; the potential effect of regulatory developments, including those which could increase the Company's business costs and required capital levels; the Company's ability to distribute its products through distribution channels, both current and future; the uncertain effect of emerging claim and coverage issues; the effect of assessments and other surcharges for guaranty funds and other mandatory pooling arrangements; and risks related to cybersecurity matters, such as breaches of our computer network or the loss of unauthorized access to the data we maintain. Many of such factors are beyond the Company's ability to control or predict. As a result, the Company's actual financial condition and results of operations could differ materially from those expressed in any forward-looking statements made by the Company. Undue reliance should not be placed upon forward-looking statements. The Company does not intend to publicly update any forward-looking statements that may be made from time to time by, or on behalf of, the Company.

Item 1A. Risk Factors

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K (a "smaller reporting company"), we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the information required by this Item.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Leased Properties. The Company leases space for its principal offices and for some of its insurance operations in an office building located in Atlanta, Georgia, from Delta Life Insurance Company under a lease which continues until either party provides written notice of cancellation at least twelve months in advance of the actual termination date. The lease, which commenced on November 1, 2007, provides for rent adjustments on every fifth anniversary of the commencement date. Under the current terms of the lease, the Company occupies approximately 49,586 square feet of office space. Delta Life Insurance Company, the owner of the building, is controlled by an affiliate of the Company. The terms of the lease are believed by Company management to be comparable to terms which could be obtained by the Company from unrelated parties for comparable rental property.

American Southern leases space for its office in a building located in Atlanta, Georgia. The lease term expires September 30, 2026. Under the terms of the lease, American Southern occupies approximately 17,014 square feet.

The Company believes that its current properties are in good condition, and are sufficient for the operations of its business.

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Item 3. Legal Proceedings

From time to time, the Company and its subsidiaries are, and expect to continue to be, involved in various claims and lawsuits arising in the ordinary course of business, both as a liability insurer defending third-party claims brought against insureds and as an insurer defending coverage claims brought against it. The Company accounts for such exposures through the establishment of loss and loss adjustment expense reserves. We do not expect that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for probable losses and costs of defense, will be material to the Company's consolidated financial condition, although the results of such litigation could be material to the consolidated results of operations for any given period.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The Company’s common stock is quoted on the Nasdaq Global Market (Symbol: AAME). As of March 15, 2019, there were 2,572 shareholders of record. The following table sets forth, for the periods indicated, the high and low sales prices of the Company’s common stock as reported on the Nasdaq Global Market.

Year Ended December 31,	High	Low
2018		
1 st quarter	\$ 3.90	\$ 3.10
2 nd quarter	3.45	2.30
3 rd quarter	3.20	2.20
4 th quarter	3.80	2.24
2017		
1 st quarter	\$ 4.35	\$ 3.40
2 nd quarter	4.03	3.50
3 rd quarter	3.75	3.15
4 th quarter	4.00	3.00

In each year since 2012, the Company has paid an annual cash dividend of \$0.02 per share. In addition, on March 26, 2019, the Company’s board of directors declared an annual cash dividend of \$0.02 per share that is payable to shareholders of record as of the close of business on March 15, 2019. Payment of dividends in the future will be at the discretion of the Company’s board of directors and will depend upon the financial condition, capital requirements, earnings of the Company, any restrictions contained in any agreements by which the Company is bound, as well as other factors as the board of directors may deem relevant. The Company’s primary recurring source of cash for the payment of dividends is dividends from its subsidiaries; although as of December 31, 2018, the Parent held unrestricted cash and investment balances of approximately \$17.3 million. Under the insurance code of the state in which each insurance subsidiary is domiciled, dividend payments to the Company by its insurance subsidiaries are subject to certain limitations without the prior approval of the applicable state’s Insurance Commissioner. In 2019, dividend payments to the Parent by the insurance subsidiaries in excess of \$4.3 million would require prior approval.

Issuer Purchases of Equity Securities

On October 31, 2016, the Board of Directors of the Company approved a plan that allows for the repurchase of up to 750,000 shares of the Company’s common stock (the “Repurchase Plan”) on the open market or in privately negotiated transactions, as determined by an authorized officer of the Company. Any such repurchases can be made from time to time in accordance with applicable securities laws and other requirements.

Other than pursuant to the Repurchase Plan, no purchases of common stock of the Company were made by or on behalf of the Company during the periods described below.

The table below sets forth information regarding repurchases by the Company of shares of its common stock on a monthly basis during the three month period ended December 31, 2018.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
October 1 – October 31, 2018	18,386	\$ 2.85	18,386	380,645
November 1 – November 30, 2018	14,093	3.11	14,093	366,552
December 1 – December 31, 2018	15,213	2.52	15,213	351,339
Total	<u>47,692</u>	<u>\$ 2.82</u>	<u>47,692</u>	

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Stock Performance Graph

As a smaller reporting company, we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the information required by this Item.

Item 6. Selected Financial Data

As a smaller reporting company, we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the information required by this Item.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's discussion and analysis of the financial condition and results of operations of Atlantic American Corporation ("Atlantic American" or the "Parent") and its subsidiaries (collectively with the Parent, the "Company") for the years ended December 31, 2018 and 2017. This discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere herein.

Atlantic American is an insurance holding company whose operations are conducted primarily through its insurance subsidiaries: American Southern Insurance Company and American Safety Insurance Company (together known as "American Southern") in the property and casualty insurance industry, and Bankers Fidelity Life Insurance Company and Bankers Fidelity Assurance Company (together known as "Bankers Fidelity") in the life and health insurance industry. Each operating company is managed separately, offers different products and is evaluated on its individual performance.

Critical Accounting Policies

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America ("GAAP") and, in management's belief, conform to general practices within the insurance industry. The following is an explanation of the Company's accounting policies and the resultant estimates considered most significant by management. These accounting policies inherently require significant judgment and assumptions and actual operating results could differ significantly from management's estimates determined using these policies. Atlantic American does not expect that changes in the estimates determined using these policies will have a material effect on the Company's financial condition or liquidity, although changes could have a material effect on its consolidated results of operations.

Unpaid loss and loss adjustment expenses comprised 30% of the Company's total liabilities at December 31, 2018. This liability includes estimates for: 1) unpaid losses on claims reported prior to December 31, 2018, 2) future development on those reported claims, 3) unpaid ultimate losses on claims incurred prior to December 31, 2018 but not yet reported and 4) unpaid loss adjustment expenses for reported and unreported claims incurred prior to December 31, 2018. Quantification of loss estimates for each of these components involves a significant degree of judgment and estimates may vary, materially, from period to period. Estimated unpaid losses on reported claims are developed based on historical experience with similar claims by the Company. Development on reported claims, estimates of unpaid ultimate losses on claims incurred prior to December 31, 2018 but not yet reported, and estimates of unpaid loss adjustment expenses are developed based on the Company's historical experience, using actuarial methods to assist in the analysis. The Company's actuaries develop ranges of estimated development on reported and unreported claims as well as loss adjustment expenses using various methods, including the paid-loss development method, the reported-loss development method, the paid Bornhuetter-Ferguson method and the reported Bornhuetter-Ferguson method. Any single method used to estimate ultimate losses has inherent advantages and disadvantages due to the trends and changes affecting the business environment and the Company's administrative policies. Further, external factors, such as legislative changes, medical cost inflation, and others may directly or indirectly impact the relative adequacy of liabilities for unpaid losses and loss adjustment expenses. The Company's approach is to select an estimate of ultimate losses based on comparing results of a variety of reserving methods, as opposed to total reliance on any single method. Unpaid loss and loss adjustment expenses are reviewed periodically for significant lines of business, and when current results differ from the original assumptions used to develop such estimates, the amount of the Company's recorded liability for unpaid loss and loss adjustment expenses is adjusted. In the event the Company's actual reported losses in any period are materially in excess of the previously estimated amounts, such losses, to the extent reinsurance coverage does not exist, could have a material adverse effect on the Company's results of operations.

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Future policy benefits comprised 37% of the Company's total liabilities at December 31, 2018. These liabilities relate primarily to life insurance products and are based upon assumed future investment yields, mortality rates, and withdrawal rates after giving effect to possible risks of adverse deviation. The assumed mortality and withdrawal rates are based upon the Company's experience. If actual results differ from the initial assumptions, the amount of the Company's recorded liability could require adjustment.

Deferred acquisition costs comprised 11% of the Company's total assets at December 31, 2018. Deferred acquisition costs are commissions, premium taxes, and other incremental direct costs of contract acquisition that results directly from and are essential to the contract transaction(s) and would not have been incurred by the Company had the contract transaction(s) not occurred. The deferred amounts are recorded as an asset on the balance sheet and amortized to expense in a systematic manner. Traditional life insurance and long-duration health insurance deferred policy acquisition costs are amortized over the estimated premium-paying period of the related policies using assumptions consistent with those used in computing the related liability for policy benefit reserves. Deferred acquisition costs for property and casualty insurance and short-duration health insurance are amortized over the effective period of the related insurance policies. Deferred policy acquisition costs are expensed when such costs are deemed not to be recoverable from future premiums (for traditional life and long-duration health insurance) and from the related unearned premiums and investment income (for property and casualty and short-duration health insurance). Assessments of recoverability for property and casualty and short-duration health insurance are extremely sensitive to the estimates of a subsequent year's projected losses related to the unearned premiums. Projected loss estimates for a current block of business for which unearned premiums remain to be earned may vary significantly from the indicated losses incurred in any previous calendar year.

Receivables are amounts due from reinsurers, insureds and agents, and any sales of investment securities not yet settled, and comprised 12% of the Company's total assets at December 31, 2018. Insured and agent balances are evaluated periodically for collectibility. Annually, the Company performs an analysis of the creditworthiness of the reinsurers with whom the Company contracts using various data sources. Failure of reinsurers to meet their obligations due to insolvencies, disputes or otherwise could result in uncollectible amounts and losses to the Company. Allowances for uncollectible amounts are established, as and when a loss has been determined probable, against the related receivable. Losses are recognized by the Company when determined on a specific account basis and a general provision for loss is made based on the Company's historical experience.

Cash and investments comprised 74% of the Company's total assets at December 31, 2018. Substantially all of the Company's investments are in bonds and common and preferred stocks, the values of which are subject to significant market fluctuations. The Company carries all fixed maturities, which includes bonds and redeemable preferred stocks, and equity securities, which includes common and non-redeemable preferred stocks, as available for sale and, accordingly, at their estimated fair values. The Company owns certain fixed maturities that do not have publicly quoted values, but had an estimated fair value as determined by management of \$1.1 million at December 31, 2018. Such values inherently involve a greater degree of judgment and uncertainty and therefore ultimately greater price volatility than the value of securities with publicly quoted market values. On occasion, the value of a fixed maturity investment may decline to a value below its amortized purchase price and remain at such value for an extended period of time. When a fixed maturity investment's indicated fair value has declined below its cost basis for a period of time, the Company evaluates such investment for an other than temporary impairment. The evaluation for an other than temporary impairment is a quantitative and qualitative process, which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. Potential risks and uncertainties include, among other things, changes in general economic conditions, an issuer's financial condition or near term recovery prospects and the effects of changes in interest rates. In evaluating a potential impairment, the Company considers, among other factors, management's intent and ability to hold the securities until price recovery, the nature of the investment and the expectation of prospects for the issuer and its industry, the status of an issuer's continued satisfaction of its obligations in accordance with their contractual terms, and management's expectation as to the issuer's ability and intent to continue to do so, as well as ratings actions that may affect the issuer's credit status. If an other than temporary impairment is deemed to exist, then the Company will write down the amortized cost basis of the investment to its estimated fair value. While any such write down does not impact the reported value of the investment in the Company's balance sheet, it is reflected as a realized investment loss in the Company's net income or other comprehensive income, depending upon the nature of the loss, in the period incurred.

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The Company determines the fair values of certain financial instruments based on the fair value hierarchy established in Accounting Standards Codification (“ASC”) 820-10-20, *Fair Value Measurements and Disclosures* (“ASC 820-10-20”). The fair values of fixed maturities and equity securities are largely determined by either independent methods prescribed by the National Association of Insurance Commissioners, which do not differ materially from nationally quoted market prices, when available, or independent broker quotations. See Note 2 and Note 15 of Notes to Consolidated Financial Statements with respect to assets and liabilities carried at fair value and information about the inputs used to value those financial instruments, by hierarchy level, in accordance with ASC 820-10-20.

Deferred income taxes reflect the effect of temporary differences between assets and liabilities that are recognized for financial reporting purposes and the amounts that are recognized for tax purposes. These deferred income taxes are measured by applying currently enacted tax laws and rates. Valuation allowances are recognized to reduce the deferred tax asset to the amount that is deemed more likely than not to be realized. In assessing the likelihood of realization, management considers estimates of future taxable income and tax planning strategies.

Refer to Note 1 of “Notes to Consolidated Financial Statements” for details regarding the Company’s significant accounting policies.

Overall Corporate Results

	Year Ended December 31,	
	2018	2017
	(In thousands)	
Revenue		
Property and Casualty:		
American Southern	\$ 59,254	\$ 59,485
Life and Health:		
Bankers Fidelity	127,005	117,495
Corporate and Other	(706)	4,134
Total revenue	\$ 185,553	\$ 181,114
Income (loss) before income taxes		
Property and Casualty:		
American Southern	\$ 5,661	\$ 8,567
Life and Health:		
Bankers Fidelity	896	(268)
Corporate and Other	(7,528)	(2,943)
Income (loss) before income taxes	\$ (971)	\$ 5,356
Net income (loss)	\$ (704)	\$ 4,528

Management also considers and evaluates performance by analyzing the non-GAAP measure operating income, and believes it is a useful metric for investors, potential investors, securities analysts and others because it isolates the “core” operating results of the Company before considering certain items that are either beyond the control of management (such as taxes, which are subject to timing, regulatory and rate changes depending on the timing of the associated revenues and expenses) or are not expected to regularly impact the Company’s operational results (such as any realized investment gains, which are not a part of the Company’s primary operations and are, to a limited extent, subject to discretion in terms of timing of realization).

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A reconciliation of net income (loss) to operating income (loss) is as follows:

	<u>Year Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>(In thousands)</u>	
Reconciliation of Non-GAAP Financial Measure		
Net income (loss)	\$ (704)	\$ 4,528
Income tax expense (benefit)	(267)	828
Realized investment gains, net	(5,154)	(9,168)
Unrealized losses on equity securities, net	2,194	—
Non-GAAP operating loss	<u>\$ (3,931)</u>	<u>\$ (3,812)</u>

On a consolidated basis, the Company had a net loss of \$0.7 million, or \$0.05 per diluted share, in 2018, compared to net income of \$4.5 million, or \$0.20 per diluted share, in 2017. Operating loss was \$3.9 million in 2018 as compared to \$3.8 million in 2017. The increase in operating loss was primarily due to unfavorable loss experience in both the property and casualty and the life and health operations. Partially offsetting the unfavorable loss experience was a lower ratio of underwriting expenses incurred relative to earned premiums. Also offsetting the change in operating loss was an increase in investment income attributable to gains from the equity in earnings from investments in real estate partnerships.

Total revenue was \$185.6 million in 2018 as compared to \$181.1 million in 2017. Premium revenue increased to \$172.9 million in 2018 from \$163.3 million in 2017. The increase in premium revenue was primarily due to an increase in Medicare supplement business in the life and health operations. Also included in total revenue were net realized investment gains of \$5.2 million in 2018 as compared to \$9.2 million in 2017. The magnitude of realized investment gains and losses in any year is a function of the timing of trades of investments relative to the markets themselves as well as the recognition of any other than temporary impairments on investments.

A more detailed analysis of the operating companies and other corporate activities follows.

UNDERWRITING RESULTS**American Southern**

The following table summarizes, for the periods indicated, American Southern's premiums, losses, expenses and underwriting ratios:

	Year Ended December 31,	
	2018	2017
	(Dollars in thousands)	
Gross written premiums	\$ 59,485	\$ 58,149
Ceded premiums	(5,075)	(4,787)
Net written premiums	<u>\$ 54,410</u>	<u>\$ 53,362</u>
Net earned premiums	\$ 53,807	\$ 53,661
Net losses and loss adjustment expenses	38,829	34,486
Underwriting expenses	14,764	16,432
Underwriting income	<u>\$ 214</u>	<u>\$ 2,743</u>
Loss ratio	72.2%	64.3%
Expense ratio	27.4	30.6
Combined ratio	<u>99.6%</u>	<u>94.9%</u>

Gross written premiums at American Southern increased \$1.3 million, or 2.3%, during 2018 as compared to 2017. The increase in gross written premiums was primarily attributable to the addition of a new agency and an increase in premiums written in the automobile physical damage line of business. Also contributing to the increase in gross written premiums was an increase in retro premiums from a certain agency in the automobile liability line of business. Partially offsetting the increase in gross written premiums was a decline in premiums written in the surety line of business as a result of increased competition.

Ceded premiums increased \$0.3 million, or 6.0%, during 2018 as compared to 2017. The increase in ceded premiums was primarily due to an increase in earned premiums in certain accounts within the automobile physical damage line of business, which is subject to reinsurance.

The following table summarizes, for the periods indicated, American Southern's net earned premiums by line of business:

	Year Ended December 31,	
	2018	2017
	(In thousands)	
Automobile liability	\$ 28,840	\$ 29,370
Automobile physical damage	11,922	9,972
General liability	2,920	2,953
Surety	7,170	8,441
Other lines	2,955	2,925
Total	<u>\$ 53,807</u>	<u>\$ 53,661</u>

Net earned premiums increased \$0.1 million, or 0.3%, during 2018 as compared to 2017. The increase in net earned premiums was primarily attributable to an increase in automobile physical damage net earned premiums resulting from the addition of a new agency and increased business writings discussed previously. Premiums are earned ratably over their respective policy terms, and therefore premiums earned in the current year are related to policies written during both the current year and immediately preceding year.

The performance of an insurance company is often measured by its combined ratio. The combined ratio represents the percentage of losses, loss adjustment expenses and other expenses that are incurred for each dollar of premium earned by the company. A combined ratio of under 100% represents an underwriting profit while a

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combined ratio of over 100% indicates an underwriting loss. The combined ratio is divided into two components, the loss ratio (the ratio of losses and loss adjustment expenses incurred to premiums earned) and the expense ratio (the ratio of expenses incurred to premiums earned).

Net losses and loss adjustment expenses at American Southern increased \$4.3 million, or 12.6%, during 2018 as compared to 2017. As a percentage of premiums, net losses and loss adjustment expenses were 72.2% in 2018 as compared to 64.3% in 2017. The increase in the loss ratio was primarily due to an increase in the frequency and severity of claims relating to automobile liability and automobile physical damage lines of business. Partially offsetting the increase in the loss ratio was more favorable loss experience in the general liability and surety lines of business during 2018 as compared to 2017.

Underwriting expenses decreased \$1.7 million, or 10.2%, during 2018 as compared to 2017. As a percentage of premiums, underwriting expenses were 27.4% in 2018 as compared to 30.6% in 2017. The decrease in the expense ratio was primarily due to American Southern's use of a variable commission structure with certain agents, which compensates the participating agents in relation to the loss ratios of the business they write. In 2018, variable commissions at American Southern decreased \$1.1 million as compared to 2017 due to less favorable loss experience from certain accounts subject to variable commissions.

In establishing reserves, American Southern initially reserves for losses at the higher end of the reasonable range if no other value within the range is determined to be more probable. Selection of such an initial loss estimate is an attempt by management to give recognition that initial claims information received generally is not conclusive with respect to legal liability, is generally not comprehensive with respect to magnitude of loss and generally, based on historical experience, will develop more adversely as time passes and more information becomes available. However, as a result, American Southern generally experiences reserve redundancies when analyzing the development of prior year losses in a current period. At December 31, 2018, the range of estimates developed in connection with the loss reserves for American Southern indicated that reserves could be as much as 7.3 % lower or as much as 12.9% higher. Development from prior years' reserves has historically reduced the current year loss ratio; however, such reduction in the current year loss ratio is generally offset by the reserves established in the current year for current period losses. American Southern's estimated net reserve redundancies for the years ended December 31, 2018 and 2017 were \$0.9 million and \$2.5 million, respectively. To the extent reserve redundancies vary between years, there is an incremental impact on the results of operations of American Southern and the Company. The indicated redundancy in 2018 was \$1.6 million less than in 2017. After considering the impact on contingent commissions and other related accruals, the \$1.6 million decrease in the redundancy resulted in an estimated decrease in income from operations before tax of approximately \$1.0 million in 2018 as compared to 2017. Management believes that such differences will continue in future periods but is unable to determine if or when incremental redundancies will increase or decrease, until the underlying losses are ultimately settled.

Contingent commissions, if contractually applicable, are ultimately payable to participating agents based on the underlying profitability of a particular insurance contract or a group of insurance contracts, and are periodically evaluated and accrued as earned. In 2018, approximately 47% of American Southern's earned premium provides for contractual commission arrangements which compensate the company's agents in relation to the loss ratios of the business they write, compared to 51% in 2017. By structuring its business in this manner, American Southern provides its agents with an economic incentive to place profitable business with American Southern. In periods in which loss reserves reflect favorable development from prior years' reserves, there is generally a highly correlated increase in commission expense also related to the prior year business. Accordingly, favorable loss development from prior years, while anticipated to continue in future periods, is not an indicator of significant additional profitability in the current year.

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Bankers Fidelity

The following summarizes, for the periods indicated, Bankers Fidelity's premiums, losses and expenses:

	Year Ended December 31,	
	2018	2017
	(Dollars in thousands)	
Medicare supplement	\$ 164,074	\$ 126,154
Other health products	7,545	6,440
Life insurance	8,964	9,657
Gross earned premiums	180,583	142,251
Ceded premiums	(61,459)	(32,585)
Net earned premiums	119,124	109,666
Insurance benefits and losses	93,821	83,029
Underwriting expenses	32,288	34,734
Total expenses	126,109	117,763
Underwriting loss	\$ (6,985)	\$ (8,097)
Loss ratio	78.8%	75.7%
Expense ratio	27.1	31.7
Combined ratio	105.9%	107.4%

Net earned premium revenue at Bankers Fidelity increased \$9.5 million, or 8.6%, during 2018 as compared to 2017. Gross earned premiums from the Medicare supplement line of business increased \$37.9 million, or 30.1%, in 2018 as compared to 2017, due primarily to successful execution of new business generating strategies with both new and existing agents. Other health product premiums increased \$1.1 million, or 17.2%, during 2018 as compared to 2017, primarily as a result of new sales of the company's hospital indemnity, disability income and group health products. Gross earned premiums from the life insurance line of business decreased \$0.7 million, or 7.2%, in 2018 from 2017 due to the redemption and settlement of existing policy obligations exceeding the level of new sales activity. Premiums ceded increased \$28.9 million, or 88.6%, in 2018 from 2017. The increase in ceded premiums was due to a significant increase in Medicare supplement premiums subject to the reinsurance agreement.

Benefits and losses increased \$10.8 million, or 13.0%, during 2018 as compared to 2017. As a percentage of premiums, benefits and losses were 78.8% in 2018 as compared to 75.7% in 2017. The increase in the loss ratio was primarily attributable to unfavorable loss experience in the Medicare supplement line. Further, throughout 2017 and continuing into 2018, Bankers Fidelity experienced a higher than expected level of claims in the Medicare supplement line of business which had an unfavorable effect on the company's loss patterns and increased the resultant loss ratio.

Underwriting expenses decreased \$2.4 million, or 7.0%, during 2018 as compared to 2017. As a percentage of earned premiums, these expenses were 27.1% in 2018 as compared to 31.7% in 2017. The decrease in the expense ratio was primarily due to the increase in earned premiums coupled with a relatively consistent level of fixed general and administrative expenses. Also contributing to the decrease in the expense ratio was an increase in the amount of reinsurance expense-reimbursement allowance associated with the Company's reinsurance agreement, which reimbursed the Company for a portion of its indirect underwriting expenses.

Investment Income and Realized Gains

Investment income increased \$1.1 million, or 12.4%, in 2018 as compared to 2017. The increase in investment income was primarily attributable to an increase in the equity in earnings from investments in real estate partnerships.

The Company had net realized investment gains of \$5.2 million in 2018 as compared to net realized investment gains of \$9.2 million in 2017. The net realized investment gains in 2018 and 2017 were primarily attributable to gains of \$5.8 million and \$6.0 million, respectively, from the sale of property held within the Company's real estate partnership investments as well as gains from the sale of a number of the Company's

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investments in fixed maturities. Management continually evaluates the Company's investment portfolio and, as may be determined to be appropriate, makes adjustments for impairments and/or will divest investments. See Note 2 of Notes to Consolidated Financial Statements.

Unrealized Losses on Equity Securities

As described in Note 1 of Notes to Consolidated Financial Statements, on January 1, 2018 the Company adopted ASU No. 2016-01, which requires, among other things, investments in equity securities to be measured at fair value at the end of the reporting period, with any changes in fair value reported in net income during the period, with certain exceptions. As a result of the adoption of ASU No. 2016-01, the Company recognized net unrealized losses on equity securities still held of \$2.2 million during the year ended December 31, 2018. In accordance with then-applicable accounting guidance, the Company recognized changes in the fair value of equity securities then held through other comprehensive income during the year ended December 31, 2017.

Interest Expense

Interest expense increased \$0.3 million, or 18.2%, in 2018 as compared to 2017 due to an increase during the year in the London Interbank Offered Rate ("LIBOR"), as the interest rates on the Company's outstanding junior subordinated deferrable interest debentures ("Junior Subordinated Debentures") are directly related to LIBOR.

Other Expenses

Other expenses (commissions, underwriting expenses, and other expenses) decreased \$4.7 million, or 8.3%, in 2018 as compared to 2017. The decrease in other expenses was primarily attributable to a reinsurance expense-reimbursement allowance associated with the reinsurance agreement in Bankers Fidelity, which reimbursed a portion of the Company's indirect underwriting expenses. Also contributing to the decrease in other expenses was the \$1.1 million decrease in variable commission accruals at American Southern due to the unfavorable loss experience from certain accounts subject to variable commissions. American Southern's variable commission structure compensates the participating agents in relation to the loss ratios of the business they write. As a percentage of earned premiums, other expenses were 30.0% in 2018 as compared with 34.6% in 2017. The decrease in the expense ratio was primarily attributable to the increase in earned premiums coupled with a lower level of general and administrative expenses.

Income Taxes

The primary differences between the effective tax rate and the federal statutory income tax rate for 2018 resulted from provision-to-filed return adjustments that are generally updated at the completion of the third quarter of each fiscal year and were \$0.1 million in the year ended December 31, 2018.

The primary differences between the effective tax rate and the federal statutory income tax rate for 2017 resulted from the dividends-received deduction ("DRD"), the small life insurance company deduction ("SLD"), which was subsequently repealed by tax reform enacted on December 22, 2017, and the remeasurement of deferred taxes. The current estimated DRD is adjusted as underlying factors change and can vary from estimates based on, but not limited to, actual distributions from investments as well as the amount of the Company's taxable income. Under the then-applicable tax rules, the SLD varied in amount and was determined at a rate of 60% of the tentative life insurance company taxable income ("LICTI"). The SLD for any taxable year was reduced (but not below zero) by 15% of the tentative LICTI for such taxable year as it exceeded \$3.0 million and was ultimately phased out at \$15.0 million. The remeasurement of deferred taxes resulted from legislated tax reform enacted on December 22, 2017. The tax reform reduced the federal tax rate applied to the Company's deferred tax balances from 35% to 21% on enactment.

Liquidity and Capital Resources

The primary cash needs of the Company are for the payment of claims and operating expenses, maintaining adequate statutory capital and surplus levels, and meeting debt service requirements. Current and expected patterns of claim frequency and severity may change from period to period but generally are expected to continue within historical ranges. The Company's primary sources of cash are written premiums, investment

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income and proceeds from the sale and maturity of its invested assets. The Company believes that, within each operating company, total invested assets will be sufficient to satisfy all policy liabilities and that cash inflows from investment earnings, future premium receipts and reinsurance collections will be adequate to fund the payment of claims and expenses as needed.

Cash flows at the Parent are derived from dividends, management fees, and tax-sharing payments, as described below, from the subsidiaries. The principal cash needs of the Parent are for the payment of operating expenses, the acquisition of capital assets and debt service requirements, as well as the repurchase of shares and payments of any dividends as may be authorized and approved by the Company's board of directors from time to time. At December 31, 2018, the Parent had approximately \$17.3 million of unrestricted cash and investments.

Dividend payments to a parent corporation by its wholly owned insurance subsidiaries are subject to annual limitations and are restricted to 10% of statutory surplus or statutory earnings before recognizing realized investment gains of the individual insurance subsidiaries. At December 31, 2018, the Parent's insurance subsidiaries had an aggregate statutory surplus of \$77.7 million. Dividends were paid to Atlantic American by its subsidiaries totaling \$4.8 million and \$4.9 million in 2018 and 2017, respectively.

The Parent provides certain administrative, purchasing and other services to each of its subsidiaries. The amount charged to and paid by the subsidiaries for these services was \$8.0 million and \$7.7 million in 2018 and 2017, respectively. In addition, the Parent has a formal tax-sharing agreement with each of its insurance subsidiaries. A net total of \$3.4 million and \$2.7 million were paid to the Parent under the tax sharing agreement in 2018 and 2017, respectively.

The Company has two statutory trusts which exist for the exclusive purpose of issuing trust preferred securities representing undivided beneficial interests in the assets of the trusts and investing the gross proceeds of the trust preferred securities in Junior Subordinated Debentures. The outstanding \$18.0 million and \$15.7 million of Junior Subordinated Debentures mature on December 4, 2032 and May 15, 2033, respectively, are callable quarterly, in whole or in part, only at the option of the Company, and have an interest rate of three-month LIBOR plus an applicable margin. The margin ranges from 4.00% to 4.10%. At December 31, 2018, the effective interest rate was 6.72%. The obligations of the Company with respect to the issuances of the trust preferred securities represent a full and unconditional guarantee by the Parent of each trust's obligations with respect to the trust preferred securities. Subject to certain exceptions and limitations, the Company may elect from time to time to defer Junior Subordinated Debenture interest payments, which would result in a deferral of distribution payments on the related trust preferred securities. The Company has not made such an election.

The Company intends to pay its obligations under the Junior Subordinated Debentures using existing cash balances, dividend and tax-sharing payments from the operating subsidiaries, or from potential future financing arrangements.

At December 31, 2018, the Company had 55,000 shares of Series D preferred stock ("Series D Preferred Stock") outstanding. All of the shares of Series D Preferred Stock are held by an affiliate of the Company's controlling shareholder. The outstanding shares of Series D Preferred Stock have a stated value of \$100 per share; accrue annual dividends at a rate of \$7.25 per share (payable in cash or shares of the Company's common stock at the option of the board of directors of the Company) and are cumulative. In certain circumstances, the shares of the Series D Preferred Stock may be convertible into an aggregate of approximately 1,378,000 shares of the Company's common stock, subject to certain adjustments and provided that such adjustments do not result in the Company issuing more than approximately 2,703,000 shares of common stock without obtaining prior shareholder approval; and are redeemable solely at the Company's option. The Series D Preferred Stock is not currently convertible. The Company had accrued, but unpaid, dividends, on the Series D Preferred Stock of \$17,722 at December 31, 2018 and 2017. During each of 2018 and 2017, the Company paid Series D Preferred Stock dividends of \$0.4 million.

Cash and cash equivalents decreased from \$24.5 million at December 31, 2017 to \$12.6 million at December 31, 2018. The decrease in cash and cash equivalents during 2018 was primarily attributable to investment purchases exceeding the sale and maturity of securities. Also contributing to the decrease were additions to property and equipment of \$0.3 million, dividends paid on the Company's common stock and Series D Preferred Stock of \$0.8 million, and the net acquisition of treasury stock for \$0.8 million. Partially offsetting the decrease in cash and cash equivalents was the net cash provided by operations of \$4.5 million during 2018.

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The Company believes that existing cash balances as well as the dividends, fees, and tax-sharing payments it expects to receive from its subsidiaries and, if needed, additional borrowings from financial institutions, will enable the Company to meet its liquidity requirements for the foreseeable future. Management is not aware of any current recommendations by regulatory authorities, which, if implemented, would have a material adverse effect on the Company's liquidity, capital resources or operations.

New Accounting Pronouncements

See "Recently Issued Accounting Standards" in Note 1 of Notes to Consolidated Financial Statements.

Impact of Inflation

Insurance premiums are established before the amount of losses and loss adjustment expenses, or the extent to which inflation may affect such losses and expenses, are known. Consequently, the Company attempts, in establishing its premiums, to anticipate the potential impact of inflation. If, for competitive reasons, premiums cannot be increased to anticipate inflation, this cost would be absorbed by the Company. Inflation also affects the rate of investment return on the Company's investment portfolio with a corresponding effect on investment income. To date, inflation has not had a material effect on the Company's results of operations in any of the periods presented.

Off-Balance Sheet Arrangements

In the normal course of business, the Company has structured borrowings that, in accordance with accounting principles generally accepted in the United States of America, are recorded on the Company's balance sheet at an amount that differs from the ultimate contractual obligation. See Note 8 of Notes to Consolidated Financial Statements.

Contractual Obligations

As a smaller reporting company, we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the table of contractual obligations required by this Item.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the information required by this Item.

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Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Atlantic American Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Atlantic American Corporation (the "Company") and subsidiaries as of December 31, 2018, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for the year ended December 31, 2018 and the related consolidated notes and schedules (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries as of December 31, 2018, and the results of their operations and their cash flows for the year ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for certain equity investments as of January 1, 2018 due to the adoption of Accounting Standards Update No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*.

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 audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("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 the financial statements are free of material misstatement, whether due to error or fraud.

The Company is not required to have, nor were we engaged to perform, an audit of internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit 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 audit 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 audit provides a reasonable basis for our opinion.

/s/ Dixon Hughes Goodman LLP

We have served as the Company's auditor since 2018.

Atlanta, Georgia
April 1, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Atlantic American Corporation
Atlanta, Georgia

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Atlantic American Corporation (the “Company”) and subsidiaries as of December 31, 2017, the related consolidated statements of operations, comprehensive income, shareholders’ equity and cash flows for the year ended December 31, 2017, and the related notes and schedules (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 and subsidiaries at December 31, 2017 and the results of their operations and their cash flows for the year ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis of Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“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 the consolidated financial statements are free of material misstatement, whether due to error or fraud.

The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company’s auditor since 2008.

Atlanta, Georgia, United States
March 26, 2018

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ATLANTIC AMERICAN CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2018	2017
	(Dollars in thousands, except per share data)	
ASSETS		
Cash and cash equivalents	\$ 12,630	\$ 24,547
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost: \$219,924 and \$212,544)	210,386	215,108
Equity securities, at fair value (cost: \$10,515 and \$10,918)	20,758	23,355
Other invested assets (cost: \$6,905 and \$5,973)	7,424	5,626
Policy loans	2,085	2,146
Real estate	38	38
Investment in unconsolidated trusts	1,238	1,238
Total investments	241,929	247,511
Receivables:		
Reinsurance	26,110	17,613
Insurance premiums and other, net of allowance for doubtful accounts of \$207 and \$209 in 2018 and 2017, respectively	15,223	13,241
Deferred income taxes, net	4,184	—
Deferred acquisition costs	37,094	32,694
Other assets	4,560	5,089
Intangibles	2,544	2,544
Total assets	\$ 344,274	\$ 343,239
LIABILITIES AND SHAREHOLDERS' EQUITY		
Insurance reserves and policyholder funds		
Future policy benefits	\$ 90,257	\$ 82,435
Unearned premiums	24,206	23,449
Losses and claims	72,612	65,689
Other policy liabilities	1,973	2,010
Total insurance reserves and policyholder funds	189,048	173,583
Accounts payable and accrued expenses	20,116	22,342
Deferred income taxes, net	—	593
Junior subordinated debenture obligations, net	33,738	33,738
Total liabilities	242,902	230,256
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock, \$1 par, 4,000,000 shares authorized; Series D preferred, 55,000 shares issued and outstanding; \$5,500 redemption value	55	55
Common stock, \$1 par, 50,000,000 shares authorized; 22,400,894 shares issued; 20,170,360 and 20,449,531 shares outstanding in 2018 and 2017, respectively	22,401	22,401
Additional paid-in capital	57,414	57,495
Retained earnings	37,208	30,993
Accumulated other comprehensive income (loss)	(7,535)	9,751
Unearned stock grant compensation	(186)	(579)
Treasury stock, at cost, 2,230,534 and 1,951,363 shares in 2018 and 2017, respectively	(7,985)	(7,133)
Total shareholders' equity	101,372	112,983
Total liabilities and shareholders' equity	\$ 344,274	\$ 343,239

See the accompanying notes to the consolidated financial statements.

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ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	<u>Year Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>(Dollars in thousands, except per share data)</u>	
Revenue:		
Insurance premiums, net	\$ 172,931	\$ 163,327
Net investment income	9,549	8,496
Realized investment gains, net	5,154	9,168
Unrealized losses on equity securities, net	(2,194)	—
Other income	113	123
Total revenue	<u>185,553</u>	<u>181,114</u>
Benefits and expenses:		
Insurance benefits and losses incurred	132,650	117,515
Commissions and underwriting expenses	39,042	43,446
Interest expense	2,037	1,723
Other expense	12,795	13,074
Total benefits and expenses	<u>186,524</u>	<u>175,758</u>
Income (loss) before income taxes	(971)	5,356
Income tax expense (benefit)	<u>(267)</u>	<u>828</u>
Net income (loss)	(704)	4,528
Preferred stock dividends	<u>(399)</u>	<u>(399)</u>
Net income (loss) applicable to common shareholders	<u>\$ (1,103)</u>	<u>\$ 4,129</u>
Earnings (loss) per common share (basic and diluted)	<u>\$ (.05)</u>	<u>\$.20</u>

See the accompanying notes to the consolidated financial statements.

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ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,	
	2018	2017
	(Dollars in thousands)	
Net income (loss)	\$ (704)	\$ 4,528
Other comprehensive income (loss):		
<u>Available-for-sale fixed maturity securities:</u>		
Gross unrealized holding gain (loss) arising in the period	(6,948)	15,200
Related income tax effect	1,459	(5,320)
Subtotal	(5,489)	9,880
Gross OTTI losses charged to realized gains	1,525	—
Related income tax effect	(320)	—
Subtotal	1,205	—
Less: reclassification adjustment for net realized gains included in net income	(6,679)	(9,168)
Related income tax effect	1,402	3,209
Subtotal	(5,277)	(5,959)
Total other comprehensive income (loss), net of tax	(9,561)	3,921
Total comprehensive income (loss)	<u>\$ (10,265)</u>	<u>\$ 8,449</u>

See the accompanying notes to the consolidated financial statements.

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ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Stock Grant Compensation	Treasury Stock	Total
(Dollars in thousands)								
Balance, December 31, 2016	\$ 55	\$ 22,401	\$ 57,114	\$ 27,272	\$ 5,830	\$ (428)	\$ (6,738)	\$105,506
Net income	—	—	—	4,528	—	—	—	4,528
Other comprehensive income, net of tax	—	—	—	—	3,921	—	—	3,921
Dividends on common stock (\$0.02 per share)	—	—	—	(408)	—	—	—	(408)
Dividends on preferred stock	—	—	—	(399)	—	—	—	(399)
Restricted stock grants, net of forfeitures	—	—	363	—	—	(646)	283	—
Amortization of unearned compensation	—	—	—	—	—	495	—	495
Purchase of 188,066 shares for treasury	—	—	—	—	—	—	(692)	(692)
Issuance of 8,892 shares under stock plans	—	—	18	—	—	—	14	32
Balance, December 31, 2017	55	22,401	57,495	30,993	9,751	(579)	(7,133)	112,983
Cumulative effect of adoption of accounting guidance for equity financial instruments at January 1, 2018	—	—	—	9,825	(9,825)	—	—	—
Reclassification of certain tax effects from accumulated other comprehensive income at January 1, 2018	—	—	—	(2,100)	2,100	—	—	—
Net loss	—	—	—	(704)	—	—	—	(704)
Other comprehensive loss, net of tax	—	—	—	—	(9,561)	—	—	(9,561)
Dividends on common stock (\$0.02 per share)	—	—	—	(407)	—	—	—	(407)
Dividends on preferred stock	—	—	—	(399)	—	—	—	(399)
Restricted stock grants, net of forfeitures	—	—	(96)	—	—	149	(53)	—
Amortization of unearned compensation	—	—	—	—	—	244	—	244
Purchase of 193,103 shares for treasury	—	—	—	—	—	—	(597)	(597)
Net shares acquired related to employee share-based compensation plans	—	—	—	—	—	—	(223)	(223)
Issuance of 13,415 shares under stock plans	—	—	15	—	—	—	21	36
Balance, December 31, 2018	<u>\$ 55</u>	<u>\$ 22,401</u>	<u>\$ 57,414</u>	<u>\$ 37,208</u>	<u>\$ (7,535)</u>	<u>\$ (186)</u>	<u>\$ (7,985)</u>	<u>\$101,372</u>

See the accompanying notes to the consolidated financial statements.

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ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2018	2017
	(Dollars in thousands)	
Cash flows from operating activities:		
Net (loss) income	\$ (704)	\$ 4,528
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Amortization of deferred acquisition costs	17,611	16,036
Acquisition costs deferred	(22,011)	(19,755)
Realized investment gains, net	(5,154)	(9,168)
Unrealized losses on equity securities, net	2,194	—
Distributions received from equity method investees	10,777	9,535
Compensation expense related to share awards	244	495
Depreciation and amortization	987	1,438
Deferred income tax benefit	(2,236)	(1,358)
Increase in receivables, net	(10,221)	(6,185)
Increase in insurance reserves and policyholder funds	15,465	10,904
(Decrease) increase in other liabilities	(2,226)	5,665
Other, net	(266)	34
Net cash provided by operating activities	<u>4,460</u>	<u>12,169</u>
Cash flows from investing activities:		
Proceeds from investments sold	30,140	74,457
Proceeds from investments matured, called or redeemed	4,906	10,791
Investments purchased	(49,552)	(84,552)
Additions to property and equipment	(281)	(103)
Net cash (used in) provided by investing activities	<u>(14,787)</u>	<u>593</u>
Cash flows from financing activities:		
Payment of dividends on Series D preferred stock	(399)	(399)
Payment of dividends on common stock	(407)	(408)
Proceeds from shares issued under stock plans	36	32
Treasury stock acquired — share repurchase authorization	(597)	(692)
Treasury stock acquired — net employee share-based compensation	(223)	—
Net cash used in financing activities	<u>(1,590)</u>	<u>(1,467)</u>
Net (decrease) increase in cash	(11,917)	11,295
Cash and cash equivalents at beginning of year	24,547	13,252
Cash and cash equivalents at end of year	<u>\$ 12,630</u>	<u>\$ 24,547</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 1,996</u>	<u>\$ 1,705</u>
Cash paid for income taxes	<u>\$ 2,107</u>	<u>\$ 1,400</u>

See the accompanying notes to the consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) which, for insurance companies, differ in some respects from the statutory accounting practices prescribed or permitted by regulatory authorities. These financial statements include the accounts of Atlantic American Corporation (“Atlantic American” or the “Parent”) and its subsidiaries (collectively with the Parent, the “Company”). All significant intercompany accounts and transactions have been eliminated in consolidation. Operating results achieved in any historical period are not necessarily indicative of results to be expected in any future period.

At December 31, 2018, the Parent owned four insurance subsidiaries, Bankers Fidelity Life Insurance Company and its wholly-owned subsidiary, Bankers Fidelity Assurance Company (together known as “Bankers Fidelity”), and American Southern Insurance Company and its wholly-owned subsidiary, American Safety Insurance Company (together known as “American Southern”), in addition to one non-insurance subsidiary, xCalibre Risk Services, Inc. The Parent has issued a guarantee of all liabilities of Bankers Fidelity.

Premium Revenue and Cost Recognition

Life insurance premiums are recognized as revenue when due; accident and health insurance premiums are recognized as revenue over the premium paying period and property and casualty insurance premiums are recognized as revenue over the period of the contract in proportion to the amount of insurance protection provided. Losses, benefits and expenses are accrued as incurred and are associated with premiums as they are earned so as to result in recognition of profits over the lives of the contracts. For traditional life insurance and long-duration health insurance, this association is accomplished by the provision of a future policy benefits reserve and the deferral and subsequent amortization of the costs of acquiring business, which are referred to as “deferred policy acquisition costs” (principally commissions, premium taxes, and other incremental direct costs of issuing policies). Deferred policy acquisition costs are amortized over the estimated premium-paying period of the related policies using assumptions consistent with those used in computing the policy benefits reserve. The Company provides for insurance benefits and losses on accident, health, and property-casualty claims based upon estimates of projected ultimate losses. Deferred policy acquisition costs for property and casualty insurance and short-duration health insurance are amortized over the effective period of the related insurance policies. Contingent commissions, if contractually applicable, are ultimately payable to agents based on the underlying profitability of a particular insurance contract or a group of insurance contracts, and are periodically evaluated and accrued as earned. In periods in which revisions are made to the estimated loss reserves related to the particular insurance contract or group of insurance contracts subject to such commissions, corresponding adjustments are also made to the related accruals. Deferred policy acquisition costs are expensed when such costs are deemed not to be recoverable from future premiums (for traditional life and long-duration health insurance) and from the related unearned premiums and investment income (for property and casualty and short-duration health insurance).

Intangibles

Intangibles consist of goodwill and other indefinite-lived intangible assets. Goodwill represents the excess of cost over the fair value of net assets acquired and is not amortized. Other indefinite-lived intangibles represent the value of licenses and are not amortized. The Company periodically reviews its goodwill and other indefinite-lived intangibles to determine if any adverse conditions exist that could indicate impairment. Conditions that could trigger impairment include, but are not limited to, a significant change in business climate that could affect the value of the related asset, an adverse action, or an assessment by a regulator. No impairment of the Company’s recorded intangibles was identified during any of the periods presented.

Investments

The Company’s investments in fixed maturities, which include bonds and redeemable preferred stocks, are classified as “available-for-sale” and, accordingly, are carried at fair value with the after-tax difference from amortized cost, as adjusted if applicable, reflected in shareholders’ equity as a component of accumulated other

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comprehensive income or loss. Effective January 1, 2018, upon adoption of new accounting guidance, the Company's equity securities, which include common and non-redeemable preferred stocks, are carried at fair value with changes in fair value reported in net income. Prior to January 1, 2018, changes in fair value were reported in other comprehensive income. The fair values of fixed maturities and equity securities are largely determined by either independent methods prescribed by the NAIC, which do not differ materially from publicly quoted market prices, when available, or independent broker quotations. The Company owns certain fixed maturities that do not have publicly quoted market values, but had an estimated fair value as determined by management of \$1,066 and \$1,369 at December 31, 2018 and 2017, respectively. Such values inherently involve a greater degree of judgment and uncertainty and therefore ultimately greater price volatility than the value of securities with publicly quoted market values. Policy loans are carried at unpaid principal balance and real estate is carried at historical cost. Other invested assets are comprised of investments in limited partnerships, limited liability companies, and real estate joint ventures, and are accounted for using the equity method. If the value of a fixed maturity security or other invested asset declines below its cost or amortized cost, as applicable, and the decline is considered to be other than temporary, a realized loss is recorded to reduce the carrying value of the investment to its estimated fair value, which becomes the new cost basis. The evaluation for an other than temporary impairment ("OTTI") is a quantitative and qualitative process, which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. Potential risks and uncertainties include, among other things, changes in general economic conditions, an issuer's financial condition or near term recovery prospects and the effects of changes in interest rates. In evaluating a potential impairment, the Company considers, among other factors, management's intent and ability to hold the securities until price recovery, the nature of the investment and the expectation of prospects for the issuer and its industry, the status of an issuer's continued satisfaction of its obligations in accordance with their contractual terms, and management's expectation as to the issuer's ability and intent to continue to do so, as well as ratings actions that may affect the issuer's credit status. Premiums and discounts related to investments are amortized or accreted over the life of the related investment as an adjustment to yield using the effective interest method. Dividends and interest income are recognized when earned or declared. The cost of securities sold is based on specific identification. Unrealized gains (losses) in the value of fixed maturities are accounted for as a direct increase (decrease) in accumulated other comprehensive income in shareholders' equity, net of deferred tax and, accordingly, have no effect on net income.

Income Taxes

Deferred income taxes represent the expected future tax consequences when the reported amounts of assets and liabilities are recovered or paid. They arise from differences between the financial reporting and tax basis of assets and liabilities and are adjusted for changes in tax laws and tax rates as those changes are enacted. The provision for income taxes represents the total amount of income taxes due related to the current year, plus the change in deferred income taxes during the year. A valuation allowance is recognized if, based on management's assessment of the relevant facts, it is more likely than not that some portion of a deferred tax asset will not be realized.

Earnings Per Common Share

Basic earnings per common share are based on the weighted average number of common and participating shares outstanding during the relevant period. Diluted earnings per common share are based on the weighted average number of common and participating shares outstanding during the relevant period, plus options outstanding, if applicable, using the treasury stock method and the assumed conversion of the Series D preferred stock, if dilutive. Unless otherwise indicated, earnings per common share amounts are presented on a diluted basis.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and investments in short-term, highly liquid securities with original maturities of three months or less from date of purchase.

Reinsurance

The Company enters into reinsurance agreements with other companies in the normal course of business. For each reinsurance agreement, the Company determines if the agreement provides indemnification against loss

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or liability relating to insurance risk in accordance with applicable accounting standards. Reinsurance premiums and benefits paid or provided are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums, benefits and DAC are reported net of insurance ceded.

Share-Based Transactions

For employee and director share-based compensation awards, the Company determines a grant date fair value based on the price of our publicly-traded common stock and recognize the related compensation expense, adjusted for actual forfeitures, in the statement of income on a straight-line basis over the requisite service period for the entire award. For non-employee share-based compensation awards, the Company recognizes the impact during the period of performance, and the fair value of the award is measured as of the date performance is complete, which is the vesting date.

Treasury Stock

Treasury stock is reflected as a reduction of shareholders' equity at cost. The Company uses the first-in-first-out (FIFO) purchase cost to determine the cost of treasury stock that is reissued. The Company includes any gains and losses in additional paid-in capital when treasury stock is reissued.

Recently Issued Accounting Standards

Adoption of New Accounting Standards

Reclassification of Effect of Tax Rate Change from AOCI to Retained Earnings. In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("ASU 2018-02"). The FASB issued this guidance for the effect on deferred tax assets and liabilities related to items recorded in accumulated other comprehensive income ("AOCI") resulting from legislated tax reform enacted on December 22, 2017. The tax reform reduced the federal tax rate applied to the Company's deferred tax balances from 35% to 21% on enactment. The Company recorded the total effect of the change in enacted tax rates on deferred tax balances in the income tax expense component of net income. ASU 2018-02 permits the Company to reclassify out of AOCI and into retained earnings the "stranded" tax effects that resulted from recording the tax effects of unrealized investment gains at a 35% tax rate because the 14% reduction in tax rate was recognized in net income instead of other comprehensive income. The Company adopted ASU 2018-02 as of January 1, 2018. As a result, on January 1, 2018, the Company reclassified \$2,100 of stranded tax effects related to continuing operations which increased AOCI and reduced retained earnings.

Classification of Certain Cash Receipts and Cash Payments. In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The issues addressed in ASU 2016-15 are: 1) debt prepayment or debt extinguishment costs, 2) settlement of zero-coupon debt instruments, 3) contingent consideration payments made after a business combination, 4) proceeds from the settlement of insurance claims, 5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, 6) distributions received from equity method investees, 7) beneficial interests in securitization transactions and 8) separately identifiable cash flows and application of the predominance principle. The Company adopted ASU 2016-15 as of January 1, 2018, which impacted the classification of distributions from equity method investees. The Company made the election to use the nature of distributions approach. For the year ended December 31, 2018, the Company classified distributions from equity method investees of \$10,777 as cash flows from operating activities and reclassified \$9,535 as cash flows from investing activities to cash flows from operating activities for the year ended December 31, 2017, in its consolidated statements of cash flows.

Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities. In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10) ("ASU 2016-01"). ASU 2016-01 provides updated guidance for the recognition and measurement of financial instruments. The guidance requires investments in equity securities to be measured at fair value with any changes in valuation reported in net income except for investments that are consolidated or are accounted for under the

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equity method of accounting. The guidance also requires a deferred tax asset resulting from net unrealized losses on available-for-sale (“AFS”) fixed maturities that are recognized in AOCI to be evaluated for recoverability in combination with the Company’s other deferred tax assets. Under previous guidance, the Company measured investments in equity securities at fair value with any changes in fair value reported in other comprehensive income. The Company adopted ASU 2016-01 as of January 1, 2018. The adoption of this guidance resulted in the recognition of \$9,825 of net after tax unrealized gains on equity securities as a cumulative effect adjustment that increased retained earnings as of January 1, 2018 and decreased AOCI by the same amount. The Company elected to report changes in the fair value of equity securities in a separate line item on the Company’s consolidated statements of operations. At December 31, 2017, equity securities were classified as AFS in the Company’s consolidated balance sheets. However, upon adoption, the updated guidance eliminated the AFS balance sheet classification for equity securities.

Revenue from Contracts with Customers. In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”). ASU 2014-09, as modified, provides guidance for recognizing revenue which excludes insurance contracts and financial instruments. Revenue is to be recognized when, or as, goods or services are transferred to customers in an amount that reflects the consideration that an entity is expected to be entitled in exchange for those goods or services. The Company adopted ASU No. 2014-09 as of January 1, 2018. For the year ended December 31, 2018, approximately \$113, or less than one-tenth of 1% of the Company’s total revenues, were within the scope of this updated guidance. The adoption of this ASU did not have an impact on the Company’s consolidated financial statements.

Future Adoption of New Accounting Standards

Fair Value Measurement – Changes to the Disclosure Requirements for Fair Value Measurement. In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”). This guidance removes the following disclosure requirements from Topic 820: (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, (2) the policy for timing of transfers between levels, and (3) the valuation processes for Level 3 fair value measurements. This disclosure also includes the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019, although earlier adoption is permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

Accounting for Long-Duration Contracts. In August 2018, the FASB issued ASU No. 2018-12, Financial Services — Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts (“ASU 2018-12”). This guidance (1) improves the timeliness of recognizing changes in the liability for future policy benefits and modifies the rate used to discount future cash flows, (2) simplifies and improves the accounting for certain market-based options or guarantees associated with deposit (or account balance) contracts, (3) simplifies the amortization of deferred acquisition costs, and (4) improves the effectiveness of the required disclosures. ASU 2018-12 is effective for interim and annual reporting periods beginning after December 15, 2020, although earlier adoption is permitted. The Company has not yet determined the method or timing for adoption or estimated the impact on the Company’s consolidated financial statements.

Premium Amortization on Purchased Callable Debt Securities. In March 2017, the FASB issued ASU No. 2017-08, Receivables — Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities (“ASU 2017-08”). This guidance shortens the amortization period for certain callable debt securities held at a premium to the earliest call date. Under current GAAP, premiums and discounts on callable securities generally are amortized to the maturity date. ASU 2017-08 is effective for interim and annual reporting periods beginning after December 15, 2018, although earlier adoption is permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

Goodwill. In January 2017, the FASB issued ASU No. 2017-04, Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (“ASU 2017-04”). ASU 2017-04 is intended to simplify the evaluation of goodwill. The updated guidance requires recognition and measurement of goodwill impairment based on the excess of the carrying value of the reporting unit compared to its estimated fair value,

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with the amount of the impairment not to exceed the carrying value of the reporting unit's goodwill. Under existing guidance, if the reporting unit's carrying value exceeds its estimated fair value, the Company allocates the fair value of the reporting unit to all of the assets and liabilities of the reporting unit to determine an implied goodwill value. An impairment loss is then recognized for the excess, if any, of the carrying value of the reporting unit's goodwill compared to the implied goodwill value. The amendments in ASU 2017-04 are effective for interim and annual reporting periods beginning after December 15, 2019. The Company expects to adopt the updated guidance January 1, 2020 on a prospective basis as required, although earlier adoption is permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

Financial Instruments – Credit Losses. In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 requires entities to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Under current GAAP, entities generally recognize credit losses when it is probable that the loss has been incurred. ASU 2016-13 will remove all recognition thresholds and will require entities to recognize an allowance for credit losses equal to the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the entity expects to collect over the instrument's contractual life. ASU 2016-13 also amends the credit loss measurement guidance for AFS debt securities and beneficial interests in securitized financial assets. Credit losses on AFS debt securities carried at fair value will continue to be measured as OTTI when incurred; however, the losses will be recognized through an allowance and no longer as an adjustment to the cost basis. Recoveries of OTTI will be recognized as reversals of valuation allowances and no longer accreted as investment income through an adjustment to the investment yield. The allowance on AFS debt securities cannot cause the net carrying value to be below fair value and, therefore, it is possible that increases in fair value due to decreases in market interest rates could cause the reversal of a valuation allowance and increase net income. The new guidance will also require purchased financial assets with a more-than-insignificant amount of credit deterioration since original issuance to be recorded based on contractual amounts due and an initial allowance recorded at the date of purchase. For the Company, the amendments in ASU 2016-13 will be effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company has not yet determined the timing of adoption. Implementation matters yet to be addressed include determining the impact of valuation allowances on the effective interest method for recognizing interest income from AFS debt securities as well as updating our investment accounting system functionality to adjust valuation allowances based on changes in fair value. The estimated effect on the Company's financial statements can only be estimated based on the current investment portfolio at any given point in time, and accordingly, has not currently been determined.

Leases. In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). Under this guidance, an entity is required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Under ASU 2016-02, lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. Under the new guidance, lessees with operating leases will be required to recognize a liability for the present value of future minimum lease payments with a corresponding asset for the right of use of the property. Under existing guidance, future minimum lease payments on operating leases are commitments that are not recognized as liabilities on the balance sheet. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018 and requires a modified retrospective adoption. The adoption of the updated guidance will result in the recognition of a right-of-use asset and a lease liability of the same amount, which will be less than 2% of total assets and total liabilities, and is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Significant estimates and assumptions are used in developing and evaluating deferred income taxes, deferred acquisition costs, insurance reserves, investments, and receivables, among others, and actual results could differ materially from management's estimates.

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Note 2. Investments

The following tables set forth the estimated fair value, gross unrealized gains, gross unrealized losses and cost or amortized cost of the Company's investments in fixed maturities and equity securities, aggregated by type and industry, as of December 31, 2018 and December 31, 2017.

Fixed maturities were comprised of the following:

	2018			
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Fixed maturities:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 27,422	\$ 36	\$ 1,061	\$ 28,447
Obligations of states and political subdivisions	8,364	347	72	8,089
Corporate securities:				
Utilities and telecom	19,642	873	431	19,200
Financial services	49,477	747	2,942	51,672
Other business – diversified	49,196	226	2,844	51,814
Other consumer – diversified	56,093	84	4,501	60,510
Total corporate securities	174,408	1,930	10,718	183,196
Redeemable preferred stocks:				
Other consumer – diversified	192	—	—	192
Total redeemable preferred stocks	192	—	—	192
Total fixed maturities	\$ 210,386	\$ 2,313	\$ 11,851	\$ 219,924
	2017			
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Fixed maturities:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 31,155	\$ 149	\$ 511	\$ 31,517
Obligations of states and political subdivisions	10,809	630	1	10,180
Corporate securities:				
Utilities and telecom	21,882	1,709	130	20,303
Financial services	53,686	2,049	453	52,090
Other business – diversified	44,184	1,024	1,349	44,509
Other consumer – diversified	53,200	924	1,477	53,753
Total corporate securities	172,952	5,706	3,409	170,655
Redeemable preferred stocks:				
Other consumer – diversified	192	—	—	192
Total redeemable preferred stocks	192	—	—	192
Total fixed maturities	\$ 215,108	\$ 6,485	\$ 3,921	\$ 212,544

Bonds having an amortized cost of \$10,452 and \$11,178 and included in the tables above were on deposit with insurance regulatory authorities at December 31, 2018 and 2017, respectively, in accordance with statutory requirements.

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	2018			
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost or Amortized Cost
Equity securities:				
Common and non-redeemable preferred stocks:				
Utilities and telecom	1,686	722	—	964
Financial services	4,552	172	—	4,380
Other business – diversified	306	259	—	47
Other consumer – diversified	14,214	9,090	—	5,124
Total equity securities	<u>\$ 20,758</u>	<u>\$ 10,243</u>	<u>\$ —</u>	<u>\$ 10,515</u>
	2017			
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost or Amortized Cost
Equity securities:				
Common and non-redeemable preferred stocks:				
Utilities and telecom	1,588	624	—	964
Financial services	5,634	851	—	4,783
Other business – diversified	297	250	—	47
Other consumer – diversified	15,836	10,712	—	5,124
Total equity securities	<u>\$ 23,355</u>	<u>\$ 12,437</u>	<u>\$ —</u>	<u>\$ 10,918</u>

The carrying value and amortized cost of the Company's investments in fixed maturities at December 31, 2018 and 2017 by contractual maturity were as follows. Actual maturities may differ from contractual maturities because issuers may call or prepay obligations with or without call or prepayment penalties.

	2018		2017	
	Carrying Value	Amortized Cost	Carrying Value	Amortized Cost
Due in one year or less	\$ 3,150	\$ 3,150	\$ 1,653	\$ 1,655
Due after one year through five years	19,787	19,699	13,738	14,056
Due after five years through ten years	127,617	133,863	112,847	112,116
Due after ten years	43,823	46,338	67,328	64,928
Asset backed securities	16,009	16,874	19,542	19,789
Totals	<u>\$ 210,386</u>	<u>\$ 219,924</u>	<u>\$ 215,108</u>	<u>\$ 212,544</u>

The following tables present the Company's unrealized loss aging for securities by type and length of time the security was in a continuous unrealized loss position as of December 31, 2018 and 2017.

	2018					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S.						
Government agencies and authorities	\$ —	\$ —	\$ 24,786	\$ 1,061	\$ 24,786	\$ 1,061
Obligations of states and political subdivisions	—	—	3,980	72	3,980	72
Corporate securities	49,633	1,592	97,012	9,126	146,645	10,718
Total temporarily impaired securities	<u>\$ 49,633</u>	<u>\$ 1,592</u>	<u>\$ 125,778</u>	<u>\$ 10,259</u>	<u>\$ 175,411</u>	<u>\$ 11,851</u>

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	2017					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 12,175	\$ 162	\$ 12,737	\$ 349	\$ 24,912	\$ 511
Obligations of states and political subdivisions	999	1	—	—	999	1
Corporate securities	40,108	653	32,667	2,756	72,775	3,409
Total temporarily impaired securities	<u>\$ 53,282</u>	<u>\$ 816</u>	<u>\$ 45,404</u>	<u>\$ 3,105</u>	<u>\$ 98,686</u>	<u>\$ 3,921</u>

The evaluation for an other than temporary impairment is a quantitative and qualitative process, which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. Potential risks and uncertainties include, among other things, changes in general economic conditions, an issuer's financial condition or near term recovery prospects and the effects of changes in interest rates. In evaluating a potential impairment, the Company considers, among other factors, management's intent and ability to hold the securities until price recovery, the nature of the investment and the expectation of prospects for the issuer and its industry, the status of an issuer's continued satisfaction of its obligations in accordance with their contractual terms, and management's expectation as to the issuer's ability and intent to continue to do so, as well as ratings actions that may affect the issuer's credit status.

During the year ended December 31, 2018, the Company recorded OTTI charges related to certain fixed maturity securities of \$1,525 as a charge to net income due to management's intention to sell such securities. There were no OTTI charges recorded in 2017.

As of December 31, 2018 and 2017, there were one hundred forty and sixty-nine securities, respectively, in an unrealized loss position which primarily included certain of the Company's investments in fixed maturities within the financial services, other diversified business and other diversified consumer sectors. The increase in the number and value of securities in an unrealized loss position during the year ended December 31, 2018, was primarily attributable to the rising interest rate environment. Other than securities for which an impairment charge has already been taken, the Company does not currently intend to sell nor does it expect to be required to sell any of the securities in an unrealized loss position. Based upon the Company's expected continuation of receipt of contractually required principal and interest payments and its intent and ability to retain the securities until price recovery, as well as the Company's evaluation of other relevant factors, including those described above, the Company has deemed these securities to be temporarily impaired as of December 31, 2018.

Investment income was earned from the following sources:

	2018	2017
Fixed maturities	\$ 8,432	\$ 8,297
Equity securities	440	467
Other	677	(268)
Net investment income	<u>\$ 9,549</u>	<u>\$ 8,496</u>

A summary of realized investment gains (losses) follows:

	2018			
	Fixed Maturities	Equity Securities	Other Invested Assets	Total
Gains	\$ 884	\$ 272	\$ 5,827	\$ 6,983
Losses	(1,829)	—	—	(1,829)
Realized investment gains (losses), net	<u>\$ (945)</u>	<u>\$ 272</u>	<u>\$ 5,827</u>	<u>\$ 5,154</u>

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	2017			
	Fixed Maturities	Equity Securities	Other Invested Assets	Total
Gains	\$ 2,226	\$ 1,044	\$ 6,040	\$ 9,310
Losses	(142)	—	—	(142)
Realized investment gains, net	<u>\$ 2,084</u>	<u>\$ 1,044</u>	<u>\$ 6,040</u>	<u>\$ 9,168</u>

Proceeds from the sales of investments were as follows:

	2018	2017
Fixed maturities	\$ 30,078	\$ 72,760
Equity securities	—	1,579
Other investments	10,839	9,653
Total proceeds	<u>\$ 40,917</u>	<u>\$ 83,992</u>
	2018	2017
Net gains (losses) recognized during the period on equity securities	\$ (1,922)	\$ —
Less: Net gains (losses) recognized during the period on equity securities sold during the period	(272)	—
Net unrealized gains (losses) recognized during the reporting period on equity securities still held at the reporting date	<u>\$ (2,194)</u>	<u>\$ —</u>

The Company's bond portfolio included 94% investment grade securities, as defined by the NAIC, at December 31, 2018.

Variable Interest Entities

The Company holds passive interests in a number of entities that are considered to be Variable Interest Entities (VIEs) under GAAP guidance. The Company's VIE interests principally consist of interests in limited partnerships and limited liability companies formed for the purpose of achieving diversified equity returns. The Company's VIE interests, carried as a part of other invested assets, totaled \$7,424 and \$5,626 at December 31, 2018 and 2017, respectively. The Company's VIE interests, carried as a part of investment in unconsolidated subsidiaries, totaled \$1,238 at December 31, 2018 and 2017.

The Company does not have power over the activities that most significantly impact the economic performance of these VIEs and thus is not the primary beneficiary. Therefore, the Company has not consolidated these VIEs. The Company's involvement with each VIE is limited to its direct ownership interest in the VIE. The Company has no arrangements with any of the VIEs to provide other financial support to or on behalf of the VIE. At December 31, 2018, the Company's maximum loss exposure relative to these investments was limited to the carrying value of the Company's investment in the VIE.

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Note 3. Disclosures About Fair Value of Financial Instruments

The estimated fair values have been determined by the Company using available market information from various market sources and appropriate valuation methodologies as of the respective dates. However, considerable judgment is necessary to interpret market data and to develop the estimates of fair value. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, the estimates presented herein are not necessarily indicative of the amounts which the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following describes the fair value hierarchy and provides information as to the extent to which the Company uses fair value to measure the value of its financial instruments and information about the inputs used to value those financial instruments. The fair value hierarchy prioritizes the inputs in the valuation techniques used to measure fair value into three broad levels.

- Level 1 Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. The Company's financial instruments valued using Level 1 criteria include cash equivalents, U.S. Treasury securities and exchange traded common stocks.
- Level 2 Observable inputs, other than quoted prices included in Level 1, for an asset or liability or prices for similar assets or liabilities. The Company's financial instruments valued using Level 2 criteria include significantly most of its fixed maturities, which consist of U.S. Government securities, obligations of states and political subdivisions, and certain corporate fixed maturities, as well as its non-redeemable preferred stocks. In determining fair value measurements of its fixed maturities and non-redeemable preferred stocks using Level 2 criteria, the Company utilizes data from outside sources, including nationally recognized pricing services and broker/dealers. Prices for the majority of the Company's Level 2 fixed maturities and non-redeemable preferred stocks were determined using unadjusted prices received from pricing services that utilize a matrix pricing concept, which is a mathematical technique used widely in the industry to value debt securities based on various relationships to other benchmark quoted prices.
- Level 3 Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). Fair value is based on criteria that use assumptions or other data that are not readily observable from objective sources. The Company's financial instruments valued using Level 3 criteria consist of a limited number of fixed maturities. As of December 31, 2018 and December 31, 2017, the value of the Company's fixed maturities valued using Level 3 criteria was \$1,066 and \$1,369, respectively. The use of different criteria or assumptions regarding data may have yielded materially different valuations.

Recurring Fair Value Measurements

Cash Equivalents. The carrying amount approximates fair value due to the short-term nature of the instruments.

Fixed Maturities and Common and Non-Redeemable Preferred Stocks. The carrying amount is determined in accordance with methods prescribed by the NAIC, which do not differ materially from publicly quoted market prices. Certain fixed maturities do not have publicly quoted values and consist solely of issuances of pooled debt obligations of multiple, smaller financial services companies. They are not actively traded and valuation techniques used to measure fair value are based on future estimated cash flows discounted at reasonable estimated rates of interest. Other qualitative and quantitative information received from the original underwriter of the pooled offerings is also considered, as applicable.

Nonrecurring Fair Value Measurements

Non-publicly Traded Invested Assets. The fair value of investments in certain limited partnerships which are included in other invested assets on the consolidated balance sheet were determined by officers of those limited partnerships.

Policy Loans. Policy loans, which are categorized as Level 2 fair value measurements, are carried at the unpaid principal balances.

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Junior Subordinated Debentures. The fair value is estimated based on the quoted market prices for similar issues and the current rates offered for debt having similar returns and remaining maturities.

As of December 31, 2018, financial instruments carried at fair value were measured on a recurring basis as summarized below:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Fixed maturities	\$ 11,413	\$197,907	\$ 1,066 ⁽¹⁾	\$ 210,386
Equity securities	16,398	4,360 ⁽¹⁾	—	20,758
Cash equivalents	8,250	—	—	8,250
Total	<u>\$ 36,061</u>	<u>\$202,267</u>	<u>\$ 1,066</u>	<u>\$ 239,394</u>

⁽¹⁾ All underlying securities are financial service industry related.

As of December 31, 2017, financial instruments carried at fair value were measured on a recurring basis as summarized below:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Fixed maturities	\$ —	\$213,739	\$ 1,369 ⁽¹⁾	\$ 215,108
Equity securities	17,973	5,382 ⁽¹⁾	—	23,355
Cash equivalents	13,855	—	—	13,855
Total	<u>\$ 31,828</u>	<u>\$219,121</u>	<u>\$ 1,369</u>	<u>\$ 252,318</u>

⁽¹⁾ All underlying securities are financial service industry related.

The following is a roll-forward of the Company's financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) from January 1, 2017 to December 31, 2018.

	Fixed Maturities
Balance, January 1, 2017	\$ 1,264
Total unrealized gains included in other comprehensive income	105
Balance, December 31, 2017	1,369
Total realized gains included in earnings	208
Total unrealized losses included in other comprehensive loss	(28)
Settlements	(483)
Balance, December 31, 2018	<u>\$ 1,066</u>

The Company's fixed maturities valued using Level 3 inputs consist solely of issuances of pooled debt obligations of multiple, smaller financial services companies that are not actively traded. There are no assumed prepayments and/or default probability assumptions as a majority of these instruments contain certain U.S. government agency strips to support repayment of the principal. Other qualitative and quantitative information received from the original underwriter of the pooled offerings is also considered, as applicable.

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The following table sets forth the carrying amount, estimated fair value and level within the fair value hierarchy of the Company's financial instruments as of December 31, 2018 and 2017.

	Level in Fair Value Hierarchy ⁽¹⁾	2018		2017	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:					
Cash and cash equivalents	Level 1	\$ 12,630	\$ 12,630	\$ 24,547	\$ 24,547
Fixed maturities	(1)	210,386	210,386	215,108	215,108
Equity securities	(1)	20,758	20,758	23,355	23,355
Other invested assets	Level 3	7,424	7,424	5,626	5,626
Policy loans	Level 2	2,085	2,085	2,146	2,146
Real estate	Level 2	38	38	38	38
Investments in unconsolidated trusts	Level 2	1,238	1,238	1,238	1,238
Liabilities:					
Junior Subordinated Debentures, net	Level 2	33,738	33,738	33,738	33,738

⁽¹⁾ See the aforementioned information for a description of the fair value hierarchy as well as a disclosure of levels for classes of these financial assets.

Note 4. Deferred Policy Acquisition Costs

The following table presents a rollforward of deferred policy acquisition costs by segment for the years ended December 31.

	2018		2017	
	American Southern	Bankers Fidelity	American Southern	Bankers Fidelity
Deferred policy acquisition costs:				
Balance, beginning of year	\$ 2,075	\$ 30,619	\$ 2,183	\$ 26,792
Capitalization	7,893	14,118	8,062	11,693
Amortization	(7,921)	(9,690)	(8,170)	(7,866)
Balance, end of year	<u>\$ 2,047</u>	<u>\$ 35,047</u>	<u>\$ 2,075</u>	<u>\$ 30,619</u>

Note 5. Insurance Reserves and Policyholder Funds

The following table presents the Company's reserves for life, accident and health, and property and casualty losses, claims and loss adjustment expenses at December 31, 2018 and 2017.

			Amount of Insurance In Force, Net	
	2018	2017	2018	2017
Future policy benefits				
Life insurance policies:				
Ordinary	\$ 54,599	\$ 54,752	\$ 218,371	\$ 238,534
Mass market	1,364	1,693	1,677	2,070
Individual annuities	39	50	—	—
	56,002	56,495	<u>\$ 220,048</u>	<u>\$ 240,604</u>
Accident and health insurance policies	34,255	25,940		
	90,257	82,435		
Unearned premiums	24,206	23,449		
Losses, claims and loss adjustment expenses	72,612	65,689		
Other policy liabilities	1,973	2,010		
Total insurance reserves and policyholder funds	<u>\$ 189,048</u>	<u>\$ 173,583</u>		

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Annualized premiums for accident and health insurance policies were \$116,404 and \$105,422 at December 31, 2018 and 2017, respectively.

Future Policy Benefits

Liabilities for life insurance future policy benefits are based upon assumed future investment yields, mortality rates, and withdrawal rates after giving effect to possible risks of unexpected claim experience. The assumed mortality and withdrawal rates are based upon the Company's experience. The interest rates assumed for life, accident and health future policy benefits are generally: (i) 2.5% to 5.5% for issues prior to 1977, (ii) 7% graded to 5.5% for 1977 through 1979 issues, (iii) 9% for 1980 through 1987 issues, (iv) 5% to 7% for 1988 through 2009 issues, (v) 4% for 2010 through 2012 issues, and (vi) 3.5% to 4.0% for 2013 through 2018 issues.

Loss and Claim Reserves

Loss and claim reserves represent estimates of projected ultimate losses and are based upon: (a) management's estimate of ultimate liability and claims adjusters' evaluations for unpaid claims reported prior to the close of the accounting period, (b) estimates of IBNR claims based on past experience, and (c) estimates of loss adjustment expenses. The estimated liability is periodically reviewed by management and updated, with changes to the estimated liability recorded in the statement of operations in the year in which such changes are known.

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

	<u>2018</u>	<u>2017</u>
Balance at January 1	\$ 65,689	\$ 62,562
Less: Reinsurance recoverable on unpaid losses	<u>(11,968)</u>	<u>(10,796)</u>
Net balance at January 1	<u>53,721</u>	<u>51,766</u>
Incurred related to:		
Current year	128,242	114,099
Prior years	<u>308⁽¹⁾</u>	<u>(1,765)⁽²⁾</u>
Total incurred	<u>128,550</u>	<u>112,334</u>
Paid related to:		
Current year	90,981	82,092
Prior years	<u>33,032</u>	<u>28,287</u>
Total paid	<u>124,013</u>	<u>110,379</u>
Net balance at December 31	58,258	53,721
Plus: Reinsurance recoverable on unpaid losses	<u>14,354</u>	<u>11,968</u>
Balance at December 31	<u>\$ 72,612</u>	<u>\$ 65,689</u>

⁽¹⁾ Prior years' development was primarily the result of unfavorable development in the loss and claim reserves for the Medicare supplement line of business in Bankers Fidelity, somewhat offset by better than expected development on prior years loss and claim reserves for certain lines of business in American Southern.

⁽²⁾ Prior years' development was primarily the result of better than expected development on prior years loss and claim reserves for certain lines of business in American Southern.

Following is a reconciliation of total incurred losses to total insurance benefits and losses incurred:

	<u>2018</u>	<u>2017</u>
Total incurred losses	\$ 128,550	\$ 112,334
Cash surrender value and matured endowments	1,316	1,442
Benefit reserve changes	<u>2,784</u>	<u>3,739</u>
Total insurance benefits and losses incurred	<u>\$ 132,650</u>	<u>\$ 117,515</u>

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Liability for Unpaid Losses, Claims and Loss Adjustment Expenses

The following is information, by significant product lines, about incurred and paid claims development as of December 31, 2018, net of reinsurance, as well as the cumulative number of reported claims and the total of IBNR reserves plus expected development on reported claims included within the net incurred claims amounts. The information presented for the years ended December 31, 2015 and prior is presented as supplementary information and is unaudited.

Medicare Supplement

For the Years Ended December 31,											As of December 31, 2018	
Accident Year	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance										IBNR Reserves	Cumulative Number of Reported Claims
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018		
2009	\$31,124	\$30,455	\$30,481	\$30,447	\$30,438	\$30,432	\$30,431	\$30,430	\$30,430	\$ 30,430	\$ —	560,430
2010		34,849	34,328	34,323	34,303	34,282	34,272	34,268	34,265	34,264		625,698
2011			38,188	38,296	38,360	38,327	38,316	38,302	38,299	38,297	—	664,056
2012				50,021	50,996	51,021	50,998	50,989	50,987	50,985	—	867,050
2013					56,974	56,970	57,034	57,023	57,021	57,016	—	957,362
2014						57,179	56,938	56,981	56,981	56,976	—	939,472
2015							55,482	54,939	54,993	54,990	—	898,370
2016								58,849	59,851	63,226	—	1,036,748
2017									67,960	69,655	130	1,510,485
2018										79,140	11,584	1,781,051
										<u>\$534,979</u>		
Accident Year	Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018		
2009	\$29,866	\$30,455	\$30,481	\$30,447	\$30,438	\$30,432	\$30,431	\$30,430	\$30,430	\$ 30,430		
2010		29,127	34,328	34,323	34,303	34,282	34,272	34,268	34,265	34,264		
2011			31,720	38,296	38,360	38,327	38,316	38,302	38,299	38,297		
2012				42,267	50,996	51,021	50,998	50,989	50,987	50,985		
2013					47,770	56,970	57,034	57,023	57,021	57,016		
2014						48,024	56,938	56,981	56,981	56,976		
2015							45,430	54,876	54,993	54,990		
2016								49,165	59,747	63,226		
2017									57,696	69,517		
2018										66,565		
										<u>\$ 522,266</u>		
											<u>\$ 12,713</u>	

The cumulative number of reported claims for the Medicare supplement line of business is the number of distinct claims incurred and submitted to Medicare for payment in the given year. Multiple payments on the same claim are not counted in the frequency information. Estimated ultimate claims incurred, using claims data reported during each month of any given year, are calculated using the chain ladder method modified to use seasonality and trend-adjusted expected claims for the final two months. Additional adjustments to the estimated ultimate claims incurred are then applied to account for seasonal changes in billing and payment frequencies. The IBNR reserve is calculated as estimated ultimate claims less paid claims and claims in course of settlement. Thirty-six months of loss data are used to develop the estimated ultimate incurred claims. Similar approaches are used for other less significant health products, subject to modifications to account for unique aspects of the product.

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Automobile Liability

For the Years Ended December 31,											As of December 31, 2018	
Accident Year	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance										IBNR Reserves	Cumulative Number of Reported Claims
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018		
2009	\$10,817	\$ 8,891	\$ 8,659	\$ 8,558	\$ 8,245	\$ 8,123	\$ 8,155	\$ 8,154	\$ 8,153	\$ 8,153	\$ —	1,755
2010		10,752	10,818	10,547	9,937	10,068	10,185	10,202	10,201	10,209	—	1,947
2011			12,263	13,802	13,235	13,289	13,281	13,495	13,385	13,330	—	2,132
2012				12,980	15,007	14,108	13,707	13,313	13,343	13,357	12	2,343
2013					18,664	20,702	21,096	21,823	21,352	21,020	7	3,265
2014						20,812	21,881	22,041	22,353	21,682	134	3,541
2015							18,521	19,857	20,017	20,007	898	3,521
2016								20,549	21,275	21,846	2,043	3,822
2017									22,179	24,212	2,961	3,719
2018										24,284	7,466	3,205
										<u>\$178,100</u>		
Accident Year	Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018		
2009	\$ 3,250	\$ 5,208	\$ 6,353	\$ 7,502	\$ 7,995	\$ 8,123	\$ 8,155	\$ 8,154	\$ 8,153	\$ 8,153		
2010		3,211	6,274	8,291	9,382	9,725	10,056	10,090	10,206	10,210		
2011			4,205	7,934	9,858	12,071	13,039	13,106	13,199	13,330		
2012				4,627	8,791	11,507	12,932	13,197	13,211	13,288		
2013					5,144	12,193	16,782	19,407	20,382	20,982		
2014						6,822	13,807	17,554	20,177	20,878		
2015							6,226	11,878	14,938	17,612		
2016								6,796	13,141	16,397		
2017									7,401	16,317		
2018										6,989		
										<u>\$ 144,156</u>		
											\$ 33,944	

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Automobile Physical Damage

For the Years Ended December 31,						As of December 31, 2018	
Accident Year	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance					IBNR Reserves	Cumulative Number of Reported Claims
	2014	2015	2016	2017	2018		
2014	\$ 8,079	\$ 7,657	\$ 7,583	\$ 7,562	\$ 7,561	\$ —	1,635
2015		8,287	7,955	7,887	7,896	—	1,588
2016			6,877	6,386	6,352	1	1,267
2017				6,257	5,933	2	1,316
2018					7,805	145	1,343
					<u>\$ 35,547</u>		
Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance							
Accident Year	2014	2015	2016	2017	2018		
2014	\$ 6,437	\$ 7,619	\$ 7,570	\$ 7,562	\$ 7,561		
2015		6,745	7,937	7,885	7,895		
2016			5,804	6,353	6,349		
2017				5,215	5,914		
2018					6,344		
					<u>\$ 34,063</u>		
						All outstanding liabilities before 2014, net of reinsurance	
						<u>—</u>	
						Liabilities for losses, claims and loss adjustment expenses, net of reinsurance	
						<u>\$ 1,484</u>	

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General Liability

For the Years Ended December 31,											As of December 31, 2018	
Accident Year	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance										IBNR Reserves	Cumulative Number of Reported Claims
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018		
2009	\$3,392	\$2,215	\$1,944	\$1,730	\$1,702	\$1,727	\$1,828	\$1,832	\$1,888	\$ 1,921	\$ 0	290
2010		4,114	2,699	2,269	2,337	2,258	2,400	2,423	2,473	2,480	4	289
2011			3,022	1,723	1,452	1,338	1,174	1,242	1,327	1,335	12	204
2012				4,055	1,305	1,269	1,270	1,214	1,333	1,344	19	158
2013					3,461	728	926	817	865	820	4	187
2014						3,744	501	557	476	406	8	192
2015							4,421	1,037	1,227	1,044	143	144
2016								3,119	1,148	736	80	84
2017									1,490	488	184	72
2018										1,656	1,519	42
										<u>\$12,230</u>		
Accident Year	Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018		
2009	\$ 476	\$ 941	\$ 1,082	\$ 1,410	\$ 1,629	\$ 1,662	\$ 1,796	\$ 1,816	\$ 1,855	\$ 1,921		
2010		284	678	1,374	1,542	2,037	2,368	2,382	2,457	2,463		
2011			295	412	582	835	1,161	1,169	1,278	1,285		
2012				371	707	847	1,034	1,113	1,219	1,260		
2013					104	339	579	811	791	803		
2014						171	299	331	369	373		
2015							98	259	464	664		
2016								116	203	568		
2017									75	136		
2018										65		
										<u>\$ 9,538</u>		
											All outstanding liabilities before 2009, net of reinsurance	
											402	
											Liabilities for losses, claims and loss adjustment expenses, net of reinsurance	
											<u>\$ 3,094</u>	

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Surety

For the Years Ended December 31,											As of December 31, 2018	
Accident Year	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance										IBNR Reserves	Cumulative Number of Reported Claims
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018		
2009	\$4,920	\$5,025	\$4,239	\$3,951	\$3,616	\$4,636	\$4,916	\$4,664	\$4,667	\$ 4,590	\$ —	84
2010		3,995	4,624	3,618	3,396	3,607	3,549	3,563	3,534	3,530	—	95
2011			4,422	4,786	5,080	5,092	4,966	5,031	5,112	5,111	—	126
2012				4,979	4,767	5,396	5,345	4,869	4,880	4,892	2	89
2013					3,060	2,007	2,743	2,947	2,866	2,809	10	58
2014						3,214	3,130	2,990	2,760	2,685	4	53
2015							1,902	1,630	1,400	1,359	39	49
2016								3,314	1,812	1,865	27	46
2017									4,677	3,671	203	57
2018										3,528	1,872	59
										<u>\$34,040</u>		
Accident Year	Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018		
2009	\$ 103	\$ 1,595	\$ 2,640	\$ 3,205	\$ 3,410	\$ 3,760	\$ 3,757	\$ 4,663	\$ 4,666	\$ 4,590		
2010		928	2,193	2,780	2,943	3,252	3,545	3,560	3,534	3,530		
2011			1,031	3,207	4,622	4,748	4,939	5,022	5,109	5,111		
2012				2,257	4,581	4,856	5,331	4,869	4,880	4,878		
2013					323	1,010	1,369	2,763	2,789	2,749		
2014						1,331	2,327	2,727	2,739	2,664		
2015							641	856	1,127	1,125		
2016								1,054	1,732	1,772		
2017									1,971	3,255		
2018										<u>1,157</u>		
										<u>\$ 30,831</u>		
	All outstanding liabilities before 2009, net of reinsurance										3	
	Liabilities for losses, claims and loss adjustment expenses, net of reinsurance										<u>\$ 3,212</u>	

For the property and casualty lines of business, the number of claims presented above equals the number of occurrences by type of claim reported to the Company. The number of claims reported during a given year corresponds to the number of claims records opened during the year. Frequency information is maintained on a cumulative basis by accident year by line of business. For automobile claims, a claim count is separately maintained for bodily injury, property damage and physical damage claims. The Company has consistently monitored claim frequency on this basis, and believes this provides more meaningful information than using claimant count which can change over the course of settling a claim.

In general, when a claim is reported, claims representatives establish a “case reserve” for the estimated amount of the ultimate payment based on the known information of the claim at that time. Claims managers review and monitor all property and casualty claims in excess of \$25,000. As new information becomes available or payments are made on a claim, the case reserve is adjusted to reflect the revised estimate of the ultimate amount to be paid out. Estimates and assumptions pertaining to individual claims are based on complex and subjective judgments and subject to change at any time as new information becomes available.

In addition to case reserves, IBNR reserves are established to provide for claims which have not been reported to the Company as of the reporting date as well as potential adverse development on known case reserves. IBNR reserve estimates are derived through a number of analytical techniques. Actuarial data is

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analyzed by line of business, coverage and accident year. Qualitative factors are also considered in determining IBNR reserves and include such factors as judicial decisions, general economic trends such as inflation, changes in policy forms, and underwriting changes. Reserves are reviewed quarterly and any indicated adjustments are made.

Because of the inherent uncertainties in establishing both case and IBNR reserves, ultimate loss experience may prove better or worse than indicated by the combined claim reserves. Adjustments to claim reserves are reflected in the period recognized and could increase or decrease earnings for the period.

The following is supplementary information about average historical claims duration as of December 31, 2018.

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)										
Reserve Line	1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year	7th Year	8th Year	9th Year	10th Year
Medicare Supplement	83.5%	16.5%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Automobile Liability	31.5%	30.3%	17.2%	12.9%	4.4%	1.7%	0.5%	0.7%	0.0%	0.0%
Automobile Physical Damage	86.2%	12.8%	-0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
General Liability	18.5%	19.3%	20.6%	16.2%	10.0%	5.0%	4.7%	1.5%	1.1%	3.4%
Surety	34.6%	34.1%	15.3%	11.3%	0.9%	3.3%	0.5%	6.3%	0.0%	-1.7%

The reconciliation of the net incurred and paid claims development tables to the liability for losses, claims and loss adjustment expenses is as follows:

	December 31, 2018
Net outstanding liabilities:	
Medicare Supplement	\$ 12,713
Automobile Liability	33,944
Automobile Physical Damage	1,484
General Liability	3,094
Surety	3,212
Other short-duration insurance lines	2,118
Liabilities for unpaid losses, claims and loss adjustment expenses, net of reinsurance	56,565
Reinsurance recoverable on unpaid losses:	
Medicare Supplement	7,926
Automobile Liability	4,777
Automobile Physical Damage	156
General Liability	1,495
Total reinsurance recoverable on unpaid losses	14,354
Unallocated claims adjustment expenses	1,693
Total gross liability for unpaid losses, claims and loss adjustment expenses	\$ 72,612

Note 6. Reinsurance

In accordance with general practice in the insurance industry, portions of the life, property and casualty insurance written by the Company are reinsured; however, the Company remains liable with respect to reinsurance ceded should any reinsurer be unable or unwilling to meet its obligations. Approximately 96% of the Company's reinsurance recoverables were due from a single reinsurer as of December 31, 2018. Reinsurance recoverables of \$24,983 were due from General Re Life Corporation, rated "AA+" by Standard & Poor's and "A++" (Superior) by A.M. Best. Allowances for uncollectible amounts are established against reinsurance recoverables, if appropriate.

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The effects of reinsurance on premiums written, premiums earned and insurance benefits and losses incurred were as follows:

	2018	2017
Direct premiums written	\$ 220,415	\$ 181,568
Assumed premiums written	20,093	19,373
Ceded premiums written	(66,845)	(38,019)
Net premiums written	<u>\$ 173,663</u>	<u>\$ 162,922</u>
Direct premiums earned	\$ 219,785	\$ 181,458
Assumed premiums earned	19,680	19,241
Ceded premiums earned	(66,534)	(37,372)
Net premiums earned	<u>\$ 172,931</u>	<u>\$ 163,327</u>
Provision for benefits and losses incurred	\$ 188,275	\$ 147,444
Reinsurance loss recoveries	(55,625)	(29,929)
Insurance benefits and losses incurred	<u>\$ 132,650</u>	<u>\$ 117,515</u>

Components of reinsurance receivables at December 31, 2018 and 2017 were as follows:

	2018	2017
Recoverable on unpaid losses	\$ 14,354	\$ 11,968
Recoverable on unpaid benefits	9,355	4,403
Recoverable on paid losses	992	—
Ceded unearned premiums	1,185	874
Ceded advanced premiums	224	368
Total reinsurance receivables	<u>\$ 26,110</u>	<u>\$ 17,613</u>

Note 7. Income Taxes

Total income taxes were allocated as follows:

	2018	2017
Total tax expense (benefit) on income	\$ (267)	\$ 828
Tax expense (benefit) on components of shareholders' equity:		
Net unrealized gains on investment securities	(2,541)	2,111
Total tax expense (benefit)	<u>\$ (2,808)</u>	<u>\$ 2,939</u>

A reconciliation of the differences between income taxes computed at the federal statutory income tax rate and the income tax expense (benefit) is as follows:

	2018	2017
Federal income tax provision	\$ (204)	\$ 1,875
Statutory rate	21%	35%
Dividends-received deduction	(39)	(92)
Small life insurance company deduction	—	(613)
Other	75	72
Remeasurement of deferred taxes due to tax reform enactment	—	(395)
Adjustment for prior years' estimates to actual	(99)	(19)
Income tax expense (benefit)	<u>\$ (267)</u>	<u>\$ 828</u>
Effective tax rate	<u>27.5%</u>	<u>15.5%</u>

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The primary differences between the effective tax rate and the federal statutory income tax rate for 2018 resulted from provision-to-filed return adjustments that are generally updated at the completion of the third quarter of each fiscal year and were \$99 in the year ended December 31, 2018.

The primary differences between the effective tax rate and the federal statutory income tax rate for 2017 resulted from the DRD, the SLD, which was subsequently repealed by tax reform enacted on December 22, 2017, and the remeasurement of deferred taxes. The current estimated DRD is adjusted as underlying factors change and can vary from estimates based on, but not limited to, actual distributions from investments as well as the amount of the Company's taxable income. Under the then-applicable tax rules, the SLD varied in amount and was determined at a rate of 60% of the tentative LICTI. The SLD for any taxable year was reduced (but not below zero) by 15% of the tentative LICTI for such taxable year as it exceeded \$3,000 and was ultimately phased out at \$15,000. The remeasurement of deferred taxes resulted from legislated tax reform enacted on December 22, 2017. The tax reform reduced the federal tax rate applied to the Company's deferred tax balances from 35% to 21% on enactment.

Deferred tax liabilities and assets at December 31, 2018 and 2017 were comprised of the following:

	2018	2017
Deferred tax assets:		
Deferred acquisition costs	\$ 175	\$ —
Insurance reserves	3,410	3,216
Impaired assets	1,142	869
Bad debts and other	332	380
Total deferred tax assets	5,059	4,465
Deferred tax liabilities:		
Deferred acquisition costs	\$ —	\$ (1,200)
Deferred and uncollected premiums	(360)	(377)
Net unrealized investment gains	(148)	(3,150)
Other	(367)	(331)
Total deferred tax liabilities	(875)	(5,058)
Net deferred tax asset (liability)	\$ 4,184	\$ (593)

The components of income tax expense (benefit) were:

	2018	2017
Current - Federal	\$ 1,969	\$ 2,186
Deferred - Federal	(2,236)	(1,358)
Total	\$ (267)	\$ 828

The Company has formal tax-sharing agreements, and files a consolidated income tax return, with its subsidiaries. Tax years prior to 2015 have been audited by the Internal Revenue Service and are closed.

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Note 8. Junior Subordinated Debentures

The Company has two unconsolidated Connecticut statutory business trusts, which exist for the exclusive purposes of: (i) issuing trust preferred securities (“Trust Preferred Securities”) representing undivided beneficial interests in the assets of the trusts; (ii) investing the gross proceeds of the Trust Preferred Securities in junior subordinated deferrable interest debentures (“Junior Subordinated Debentures”) of Atlantic American; and (iii) engaging in those activities necessary or incidental thereto.

The financial structure of each of Atlantic American Statutory Trust I and II, as of December 31, 2018 and 2017, was as follows:

	Atlantic American Statutory Trust I	Atlantic American Statutory Trust II
JUNIOR SUBORDINATED DEBENTURES⁽¹⁾⁽²⁾		
Balance December 31, 2018	\$18,042	\$23,196
Less: Treasury debt ⁽³⁾	—	(7,500)
Net balance December 31, 2018	\$18,042	\$15,696
Net balance December 31, 2017	\$18,042	\$15,696
Coupon rate	LIBOR + 4.00%	LIBOR + 4.10%
Interest payable	Quarterly	Quarterly
Maturity date	December 4, 2032	May 15, 2033
Redeemable by issuer	Yes	Yes
TRUST PREFERRED SECURITIES		
Issuance date	December 4, 2002	May 15, 2003
Securities issued	17,500	22,500
Liquidation preference per security	\$1	\$1
Liquidation value	\$17,500	\$22,500
Coupon rate	LIBOR + 4.00%	LIBOR + 4.10%
Distribution payable	Quarterly	Quarterly
Distribution guaranteed by ⁽⁴⁾	Atlantic American Corporation	Atlantic American Corporation

⁽¹⁾ For each of the respective debentures, the Company has the right at any time, and from time to time, to defer payments of interest on the Junior Subordinated Debentures for a period not exceeding 20 consecutive quarters up to the debentures’ respective maturity dates. During any such period, interest will continue to accrue and the Company may not declare or pay any cash dividends or distributions on, or purchase, the Company’s common stock nor make any principal, interest or premium payments on or repurchase any debt securities that rank equally with or junior to the Junior Subordinated Debentures. The Company has the right at any time to dissolve each of the trusts and cause the Junior Subordinated Debentures to be distributed to the holders of the Trust Preferred Securities.

⁽²⁾ The Junior Subordinated Debentures are unsecured and rank junior and subordinate in right of payment to all senior debt of the Parent and are effectively subordinated to all existing and future liabilities of its subsidiaries.

⁽³⁾ In 2014, the Company acquired \$7,500 of the Junior Subordinated Debentures.

⁽⁴⁾ The Parent has guaranteed, on a subordinated basis, all of the obligations under the Trust Preferred Securities, including payment of the redemption price and any accumulated and unpaid distributions to the extent of available funds and upon dissolution, winding up or liquidation.

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Note 9. Commitments and Contingencies

Litigation

From time to time, the Company is, and expects to continue to be, involved in various claims and lawsuits incidental to and in the ordinary course of its business. In the opinion of management, any such known claims are not expected to have a material effect on the financial condition or results of operations of the Company.

Operating Lease Commitments

The Company's rental expense, including common area charges, for operating leases was \$1,233 and \$1,306 in 2018 and 2017, respectively. The Company's future minimum base lease obligations under non-cancelable operating leases are as follows:

Year Ending December 31,	
2019	\$ 815
2020	506
2021	544
Thereafter	3,240
Total	<u>\$ 5,105</u>

Note 10. Benefit Plans

Equity Incentive Plan

On May 1, 2012, the Company's shareholders approved the 2012 Equity Incentive Plan (the "2012 Plan"). The 2012 Plan authorizes the grant of up to 2,000,000 stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares, performance units and other awards for the purpose of providing the Company's non-employee directors, consultants, officers and other employees incentives and rewards for superior performance. In 2018, a total of 30,000 restricted shares, with an estimated fair value of \$87, were issued under the 2012 Plan and 64,000 restricted shares, with an estimated fair value of \$236, were forfeited under such plan. In 2017, a total of 182,000 restricted shares, with an estimated fair value of \$646, were issued under the 2012 Plan. The estimated fair value of the restricted shares issued under the 2012 Plan for 2018 and 2017 was based on the common stock price at date of grant. Stock grants are generally issued from treasury shares. Vesting of restricted shares generally occurs after a one to three year period. The Company accounts for forfeitures as they occur. There were no stock options granted or outstanding under the 2012 Plan in 2018 or 2017. Shares available for future grant at December 31, 2018 and 2017 were 1,275,200 and 1,241,200, respectively.

401(k) Plan

The Company initiated an employees' savings plan (the "Plan") qualified under Section 401(k) of the Internal Revenue Code in May 1995. The Plan covers substantially all of the Company's employees. Effective January 1, 2009, the Company modified the Plan such that the Plan would operate on a safe harbor basis. Under the Plan, employees may defer up to 50% of their compensation, not to exceed the annual deferral limit. The Company's total matching contribution for 2018 and 2017 was \$233 and \$237, respectively, and consisted of a contribution equal to 35% of up to the first 6% of each participant's contributions. In addition to the matching contribution, the Company also provided a 3% safe harbor non-elective contribution in 2018 and 2017 of \$491 and \$450, respectively. All contributions were made in cash. Participants are 100% vested in their own contributions and the vested percentage attributable to certain employer contributions is based on a five year graded schedule.

Agent Stock Purchase Plan

The Company initiated a nonqualified stock purchase plan (the "Agent Stock Purchase Plan") in May 2012. The purpose of the Agent Stock Purchase Plan is to promote and advance the interests of the Company and its shareholders by providing independent agents who qualify as participants with an opportunity to purchase the common stock of the Company. Under the Agent Stock Purchase Plan, payment for shares of common stock of the Company is made by either deduction from an agent's commission payment or a direct cash payment. Stock purchases are made at the end of each calendar quarter at the then current market value.

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Note 11. Preferred Stock

The Company had 55,000 shares of Series D preferred stock ("Series D Preferred Stock") outstanding at December 31, 2018 and 2017, respectively. All of the shares of Series D Preferred Stock are held by an affiliate of the Company's controlling shareholder. The outstanding shares of Series D Preferred Stock have a par value of \$1 per share and a redemption value of \$100 per share; accrue annual dividends at a rate of \$7.25 per share (payable in cash or shares of the Company's common stock at the option of the board of directors of the Company) and are cumulative. In certain circumstances, the shares of the Series D Preferred Stock may be convertible into an aggregate of approximately 1,378,000 shares of the Company's common stock, subject to certain adjustments and provided that such adjustments do not result in the Company issuing more than approximately 2,703,000 shares of common stock without obtaining prior shareholder approval; and are redeemable solely at the Company's option. The Series D Preferred Stock is not currently convertible. The Company had accrued, but unpaid, dividends, on the Series D Preferred Stock of \$18 at December 31, 2018 and 2017. During each of 2018 and 2017, the Company paid Series D Preferred Stock dividends of \$399.

Note 12. Earnings (Loss) Per Common Share

Basic earnings per share was computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share reflected the effect of potentially dilutive securities.

A reconciliation of the numerator and denominator of the earnings (loss) per common share calculations is as follows:

	For the Year Ended December 31, 2018		
	Income	Shares (In thousands)	Per Share Amount
Basic and Diluted Loss Per Common Share			
Net loss before preferred stock dividends	\$ (704)	20,284	
Less preferred stock dividends	(399)	—	
Net loss applicable to common shareholders	<u>\$ (1,103)</u>	<u>20,284</u>	<u>\$ (.05)</u>
	For the Year Ended December 31, 2017		
	Income	Shares (In thousands)	Per Share Amount
Basic and Diluted Earnings Per Common Share			
Net income before preferred stock dividends	\$ 4,528	20,431	
Less preferred stock dividends	(399)	—	
Net income applicable to common shareholders	<u>\$ 4,129</u>	<u>20,431</u>	<u>\$.20</u>

The assumed conversion of the Company's Series D Preferred Stock was excluded from the earnings per common share calculation for 2018 and 2017 since its impact would have been antidilutive.

Note 13. Statutory Reporting

The assets, liabilities and results of operations have been reported on the basis of GAAP, which varies in some respects from statutory accounting practices ("SAP") prescribed or permitted by insurance regulatory authorities. The principal differences between SAP and GAAP are that under SAP: (i) certain assets that are non-admitted assets are eliminated from the balance sheet; (ii) acquisition costs for policies are expensed as incurred, while they are deferred and amortized over the estimated life of the policies under GAAP; (iii) the provision that is made for deferred income taxes is different than under GAAP; (iv) the timing of establishing certain reserves is different than under GAAP; and (v) certain valuation allowances attributable to certain investments are different.

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The Company meets the minimum capital requirements in the states in which it does business. The amount of reported statutory net income and surplus (shareholders' equity) for the Parent's insurance subsidiaries for the years ended December 31 was as follows:

	2018	2017
Bankers Fidelity, net loss	\$ (3,963)	\$ (2,880)
American Southern, net income	5,445	6,647
Statutory net income	<u>\$ 1,482</u>	<u>\$ 3,767</u>
Bankers Fidelity, surplus	\$ 34,214	\$ 34,135
American Southern, surplus	43,467	43,348
Statutory surplus	<u>\$ 77,681</u>	<u>\$ 77,483</u>

Under the insurance code of the state in which each insurance subsidiary is domiciled, dividend payments to the Parent by its insurance subsidiaries are subject to certain limitations without the prior approval of the applicable state's Insurance Commissioner. The Parent received dividends of \$4,800 and \$4,850 in 2018 and 2017, respectively, from its subsidiaries. In 2019, dividend payments to the Parent by the insurance subsidiaries in excess of \$4,347 would require prior approval.

Note 14. Related Party Transactions

In the normal course of business the Company has engaged in transactions with entities affiliated with the controlling shareholder of the Company. These transactions include the leasing of office space as well as certain investing and financing activities. At December 31, 2018, two members of the Company's board of directors, including the Company's chairman, president and chief executive officer, were considered to be affiliates of the majority shareholder.

The Company leases approximately 49,586 square feet of office and covered garage space from one such controlled entity. During the years ended December 31, 2018 and 2017, the Company paid \$781 and \$866, respectively, under this lease.

Certain financing for the Company has also been provided by this entity in the form of an investment in the Series D Preferred Stock (See Note 11). During the years ended December 31, 2018 and 2017, the Company paid this entity \$399 in dividends on the Series D Preferred Stock.

Certain members of the Company's management and board of directors are shareholders and on the board of directors of Gray Television, Inc. ("Gray"). As of December 31, 2018 and 2017, the Company owned 880,272 shares of Gray Class A common stock and 106,000 shares of Gray common stock. The aggregate carrying value of these investments in Gray at December 31, 2018 and 2017 was \$13,226 and \$14,407, respectively.

During the years ended December 31, 2018 and 2017, the Company paid approximately \$42 and \$54, respectively, to a digital marketing services organization, which is an affiliate of Gray. Services purchased primarily included assistance with website marketing initiatives on behalf of the Company's life and health operations.

During the years ended December 31, 2018 and 2017, Gray paid the Company approximately \$403 and \$597, respectively, in employer paid insurance premiums related to a group accident plan.

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Note 15. Segment Information

The Parent's primary insurance subsidiaries operate with relative autonomy and each company is evaluated based on its individual performance. American Southern operates in the property and casualty insurance market, while Bankers Fidelity operates in the life and health insurance market. Each segment derives revenue from the collection of premiums, as well as from investment income. Substantially all revenue other than that in the corporate and other segment is from external sources.

For the Year Ended December 31, 2018					
	American Southern	Bankers Fidelity	Corporate & Other	Adjustments & Eliminations	Consolidated
Insurance premiums, net	\$ 53,807	\$ 119,124	\$ —	\$ —	\$ 172,931
Insurance benefits and losses incurred	38,829	93,821	—	—	132,650
Expenses deferred	(7,893)	(14,118)	—	—	(22,011)
Amortization and depreciation expense	7,991	9,892	715	—	18,598
Other expenses	14,666	36,514	16,613	(10,506)	57,287
Total expenses	53,593	126,109	17,328	(10,506)	186,524
Underwriting income (loss)	214	(6,985)			
Net investment income	3,783	5,382	2,895	(2,511)	9,549
Other income	8	7	8,093	(7,995)	113
Operating income (loss)	4,005	(1,596)	(6,340)	—	(3,931)
Net realized gains	1,876	3,006	272	—	5,154
Unrealized losses on equity securities	(220)	(514)	(1,460)	—	(2,194)
Income (loss) before income taxes	\$ 5,661	\$ 896	\$ (7,528)	\$ —	\$ (971)
Total revenues	\$ 59,254	\$ 127,005	\$ 9,800	\$ (10,506)	\$ 185,553
Intangibles	\$ 1,350	\$ 1,194	\$ —	\$ —	\$ 2,544
Total assets	\$ 122,724	\$ 195,663	\$ 134,643	\$ (108,756)	\$ 344,274
For the Year Ended December 31, 2017					
	American Southern	Bankers Fidelity	Corporate & Other	Adjustments & Eliminations	Consolidated
Insurance premiums, net	\$ 53,661	\$ 109,666	\$ —	\$ —	\$ 163,327
Insurance benefits and losses incurred	34,486	83,029	—	—	117,515
Expenses deferred	(8,062)	(11,693)	—	—	(19,755)
Amortization and depreciation expense	8,543	8,232	712	—	17,487
Other expenses	15,951	38,195	16,191	(9,826)	60,511
Total expenses	50,918	117,763	16,903	(9,826)	175,758
Underwriting income (loss)	2,743	(8,097)			
Net investment income	3,332	5,021	2,267	(2,124)	8,496
Other income	11	8	7,806	(7,702)	123
Operating income (loss)	6,086	(3,068)	(6,830)	—	(3,812)
Net realized gains	2,481	2,800	3,887	—	9,168
Income (loss) before income taxes	\$ 8,567	\$ (268)	\$ (2,943)	\$ —	\$ 5,356
Total revenues	\$ 59,485	\$ 117,495	\$ 13,960	\$ (9,826)	\$ 181,114
Intangibles	\$ 1,350	\$ 1,194	\$ —	\$ —	\$ 2,544
Total assets	\$ 126,313	\$ 185,624	\$ 147,653	\$ (116,351)	\$ 343,239

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On September 13, 2018, the Audit Committee (the “Audit Committee”) of the Company’s Board of Directors approved the appointment of Dixon Hughes Goodman LLP (“Dixon Hughes”) as the Company’s independent registered public accounting firm, commencing with the quarter ended September 30, 2018 and for the fiscal year ended December 31, 2018. In connection with the selection of Dixon Hughes, on September 13, 2018 the Audit Committee approved terminating the engagement of BDO USA, LLP (“BDO”) as the Company’s independent registered public accounting firm.

The audit reports of BDO on the Company’s consolidated financial statements as of and for the years ended December 31, 2016 and 2017 did not contain any adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the fiscal years ended December 31, 2016 and 2017, and through the date hereof, there were no disagreements, within the meaning of Item 304(a)(1)(iv) of Regulation S-K, with BDO on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures which, if not resolved to BDO’s satisfaction, would have caused BDO to make reference to the subject matter in connection with its reports; and there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

Item 9A. Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based on that evaluation, management, including the Chief Executive Officer and Chief Financial Officer, concluded that disclosure controls and procedures were effective as of that date.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company’s internal control over financial reporting system has been designed to provide reasonable assurance regarding the reliability and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Management recognizes that there are inherent limitations in the effectiveness of any internal control system. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Furthermore, the application of any evaluations of effectiveness on 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. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2018 based upon the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the updated 2013 *Internal Control – Integrated Framework*. Based on that evaluation, management believes that internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f) was effective as of December 31, 2018.

There were no changes in our internal control over financial reporting that occurred during the fourth quarter of 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

This Annual Report does not include an attestation report of the Company’s independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s independent registered public accounting firm pursuant to certain rules of the Securities and Exchange Commission that exempt smaller reporting companies, including the Company, from such requirement.

Item 9B. Other Information

None.

PART III

With the exception of certain information relating to the Executive Officers of the Company, which is provided in Part I hereof, the information relating to securities authorized for issuance under equity compensation plans and the information relating to the Company's Code of Business Conduct and Ethics, each of which is included below, all information required by Part III (Items 10, 11, 12, 13 and 14 of Form 10-K) is incorporated by reference to the sections entitled "Election of Directors," "Security Ownership of Certain Beneficial Owners and Management," "Section 16(a) Beneficial Ownership Reporting Compliance," "Executive Compensation," "Certain Relationships and Related Transactions, and Director Independence" and "Ratification of Independent Registered Public Accounting Firm" to be contained in the Company's definitive proxy statement in connection with the Company's Annual Meeting of Shareholders to be held on May 21, 2019, to be filed with the SEC within 120 days of the Company's fiscal year end.

Equity Compensation Plan Information

The following table sets forth, as of December 31, 2018, the number of securities issuable upon exercise of outstanding options, warrants and rights, the weighted average exercise price thereof and the number of securities remaining available for future issuance under the Company's equity compensation plans:

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders	—	\$ —	1,275,200
Equity compensation plans not approved by security holders ⁽¹⁾	—	—	—
Total	—	\$ —	1,275,200

⁽¹⁾ All the Company's equity compensation plans have been approved by the Company's shareholders.

The Company has adopted a Code of Business Conduct and Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or any persons performing similar functions, as well as its directors and other employees. A copy of this Code of Business Conduct and Ethics has been filed as an exhibit to this annual report on Form 10-K.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) List of documents filed as part of this report:

1. Financial Statements:

See Index to Financial Statements contained in Item 8 hereof.

2. Financial Statement Schedules:

Schedule II - Condensed financial information of the registrant

Schedule III - Supplementary insurance information of the registrant

Schedule IV - Reinsurance information for the registrant

Schedule VI - Supplemental information concerning property-casualty insurance operations of the registrant

Schedules other than those listed above are omitted as they are not required or are not applicable, or the required information is shown in the financial statements or notes thereto. Columns omitted from schedules filed have been omitted because the information is not applicable.

3. Exhibits *:

3.1	- Restated Articles of Incorporation of the registrant, as amended [incorporated by reference to Exhibit 3.1 to the registrant's Form 10-K for the year ended December 31, 2008].
3.2	- Restated Bylaws of the registrant, as amended [incorporated by reference to Exhibit 3.1 to the registrant's Form 8-K filed on March 4, 2016].
10.01	- Management Agreement, dated July 1, 1993, between the registrant and Atlantic American Life Insurance Company and Bankers Fidelity Life Insurance Company [incorporated by reference to Exhibit 10.41 to the registrant's Form 10-Q for the quarter ended September 30, 1993].
10.02	- Tax Allocation Agreement, dated as of January 4, 2016, between the registrant and the registrant's subsidiaries [incorporated by reference to Exhibit 10.02 to the registrant's Form 10-K for the year ended December 31, 2017].
10.03**	- Atlantic American Corporation 2012 Nonqualified Stock Purchase Plan [incorporated by reference to Exhibit 99.1 to the registrant's Form S-8 (File No. 333-183207) filed on August 10, 2012].
10.04**	- Atlantic American Corporation 2012 Equity Incentive Plan [incorporated by reference to Exhibit 10.1 to the registrant's Form 10-Q for the quarter ended March 31, 2013].
10.05	- Lease Agreement, dated as of November 1, 2007, between Georgia Casualty & Surety Company, Bankers Fidelity Life Insurance Company, Atlantic American Corporation and Delta Life Insurance Company [incorporated by reference to Exhibit 10.10 to the registrant's Form 10-K for the year ended December 31, 2007].
10.06	- First Amendment to Lease Agreement, dated as of March 31, 2008, between Georgia Casualty & Surety Company, Bankers Fidelity Life Insurance Company, Atlantic American Corporation and Delta Life Insurance Company [incorporated by reference to Exhibit 10.2 to the registrant's Form 10-Q for the quarter ended March 31, 2008].
10.07**	- Employment and Transition Agreement with Fixed Determination Date, dated as of June 14, 2017 by and between John G. Sample, Jr. and the registrant [incorporated by reference to Exhibit 10.07 to the registrant's Form 10-K for the year ended December 31, 2017].
14.1	- Code of Business Conduct and Ethics [incorporated by reference to Exhibit 14.1 to the registrant's Form 10-K for the year ended December 31, 2003].
16.1	- Letter from BDO USA, LLP regarding Change in Certifying Accountant.
21.1	- Subsidiaries of the registrant [incorporated by reference to Exhibit 21.1 to the registrant's Form 10-K for the year ended December 31, 2015].
23.1	- Consent of Dixon Hughes Goodman LLP, Independent Registered Public Accounting Firm.
23.2	- Consent of BDO USA, LLP, Independent Registered Public Accounting Firm.
31.1	- Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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[31.2](#) - Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

[32.1](#) - Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS - XBRL Instance Document.

101.SCH - XBRL Taxonomy Extension Schema.

101.CAL - XBRL Taxonomy Extension Calculation Linkbase.

101.DEF - XBRL Taxonomy Extension Definition Linkbase.

101.LAB - XBRL Taxonomy Extension Label Linkbase.

101.PRE - XBRL Taxonomy Extension Presentation Linkbase.

* The registrant agrees to furnish to the Commission upon request a copy of any instruments defining the rights of security holders of the registrant that may be omitted from filing in accordance with the Commission's rules and regulations.

** Management contract, compensatory plan or arrangement required to be filed pursuant to Part IV, Item 15(c) of Form 10-K and Item 601 of Regulation S-K.

Item 16. Form 10-K Summary

None.

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SIGNATURES

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

ATLANTIC AMERICAN CORPORATION
(Registrant)

By: /s/ J. Ross Franklin
J. Ross Franklin
Vice President and Chief Financial Officer

Date: April 1, 2019

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Hilton H. Howell, Jr.</u> HILTON H. HOWELL, JR.	President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	April 1, 2019
<u>/s/ J. Ross Franklin</u> J. ROSS FRANKLIN	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	April 1, 2019
<u>/s/ Robin R. Howell</u> ROBIN R. HOWELL	Director	April 1, 2019
<u>/s/ Mark E. Preisinger</u> MARK E. PREISINGER	Director	April 1, 2019
<u>/s/ Joseph M. Scheerer</u> JOSEPH M. SCHEERER	Director	April 1, 2019
<u>/s/ Scott G. Thompson</u> SCOTT G. THOMPSON	Director	April 1, 2019
<u>/s/ D. Keehln Wheeler</u> D. KEEHLN WHEELER	Director	April 1, 2019

CONDENSED FINANCIAL INFORMATION OF REGISTRANT**ATLANTIC AMERICAN CORPORATION**
(Parent Company Only)**BALANCE SHEETS****ASSETS**

	December 31,	
	2018	2017
	(In thousands)	
Cash and cash equivalents	\$ 3,142	\$ 9,732
Investments	14,154	16,097
Investment in subsidiaries	108,756	116,351
Investments in unconsolidated trusts	1,238	1,238
Deferred tax asset, net	3,524	—
Income taxes receivable from subsidiaries	2,856	2,879
Other assets	3,311	3,762
Total assets	<u>\$ 136,981</u>	<u>\$ 150,059</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Deferred tax liability, net	\$ —	\$ 1,253
Other payables	1,871	2,085
Junior subordinated debentures	<u>33,738</u>	<u>33,738</u>
Total liabilities	35,609	37,076
Shareholders' equity	<u>101,372</u>	<u>112,983</u>
Total liabilities and shareholders' equity	<u>\$ 136,981</u>	<u>\$ 150,059</u>

See accompanying report of independent registered public accounting firm.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

**ATLANTIC AMERICAN CORPORATION
(Parent Company Only)**

STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2018	2017
	(In thousands)	
REVENUE		
Fee income from subsidiaries	\$ 7,995	\$ 7,702
Distributed earnings from subsidiaries	4,800	4,850
Unrealized losses on equity securities, net	(1,460)	—
Other	752	4,130
Total revenue	12,087	16,682
GENERAL AND ADMINISTRATIVE EXPENSES	12,764	13,015
INTEREST EXPENSE	2,037	1,723
	(2,714)	1,944
INCOME TAX BENEFIT⁽¹⁾	(3,544)	(2,553)
	830	4,497
EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARIES, NET	(1,534)	31
NET INCOME (LOSS)	<u>\$ (704)</u>	<u>\$ 4,528</u>

⁽¹⁾ Under the terms of a tax-sharing agreement, income tax provisions for the subsidiary companies are computed on a separate company basis. Accordingly, the Company's income tax benefit results from the utilization of the Parent's separate return loss to reduce the consolidated taxable income of the Company.

See accompanying report of independent registered public accounting firm.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
ATLANTIC AMERICAN CORPORATION
(Parent Company Only)
STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2018	2017
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (704)	\$ 4,528
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment gains, net	(272)	(3,891)
Unrealized losses on equity securities, net	1,460	—
Depreciation and amortization	715	712
Compensation expense related to share awards	244	495
Distributions received from equity method investees	183	4,513
Equity in undistributed earnings of consolidated subsidiaries	1,534	(31)
Decrease in intercompany taxes	24	82
Deferred income tax benefit	(2,236)	(1,358)
(Decrease) increase in other liabilities	(214)	136
Other, net	(190)	295
Net cash provided by operating activities	544	5,481
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investments sold, called or matured	675	1,501
Investments purchased	—	—
Capital contribution to subsidiaries	(6,000)	—
Additions to property and equipment	(219)	(91)
Net cash provided by investing activities	(5,544)	1,410
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends on Series D preferred stock	(399)	(399)
Payment of dividends on common stock	(407)	(408)
Proceeds from shares issued under stock plans	36	32
Treasury stock acquired — share repurchase authorization	(597)	(692)
Treasury stock acquired — net employee share-based compensation	(223)	—
Net cash used in financing activities	(1,590)	(1,467)
Net increase (decrease) in cash	(6,590)	5,424
Cash and cash equivalents at beginning of year	9,732	4,308
Cash and cash equivalents at end of year	\$ 3,142	\$ 9,732
Supplemental disclosure:		
Cash paid for interest	\$ 1,996	\$ 1,705
Cash paid for income taxes	\$ 2,107	\$ 1,400
Intercompany tax settlement from subsidiaries	\$ 3,439	\$ 2,676

See accompanying report of independent registered public accounting firm.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION

Segment	Deferred Acquisition Costs	Future Policy Benefits, Losses, Claims and Loss Reserves	Unearned Premiums	Other Policy Claims and Benefits Payable
(In thousands)				
December 31, 2018:				
Bankers Fidelity	\$ 35,047	\$ 113,515	\$ 4,712	\$ 1,973
American Southern	2,047	49,354	19,494	—
	<u>\$ 37,094</u>	<u>\$ 162,869⁽¹⁾</u>	<u>\$ 24,206</u>	<u>\$ 1,973</u>
December 31, 2017:				
Bankers Fidelity	\$ 30,619	\$ 100,127	\$ 4,271	\$ 2,010
American Southern	2,075	47,997	19,178	—
	<u>\$ 32,694</u>	<u>\$ 148,124⁽²⁾</u>	<u>\$ 23,449</u>	<u>\$ 2,010</u>

⁽¹⁾ Includes future policy benefits of \$90,257 and losses and claims of \$72,612.

⁽²⁾ Includes future policy benefits of \$82,435 and losses and claims of \$65,689.

See accompanying report of independent registered public accounting firm.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
 SUPPLEMENTARY INSURANCE INFORMATION

Segment	Premium Revenue	Net Investment Income	Benefits, Claims, Losses and Settlement Expenses	Amortization of Deferred Acquisition Costs	Other Operating Expenses	Casualty Premiums Written
(In thousands)						
December 31, 2018:						
Bankers Fidelity	\$ 119,124	\$ 5,382	\$ 93,821	\$ 9,690	\$ 22,598	\$ —
American Southern	53,807	3,783	38,829	7,921	6,843	54,410
Corporate & other	—	384	—	—	6,822	—
	<u>\$ 172,931</u>	<u>\$ 9,549</u>	<u>\$ 132,650</u>	<u>\$ 17,611</u>	<u>\$ 36,263</u>	<u>\$ 54,410</u>
December 31, 2017:						
Bankers Fidelity	\$ 109,666	\$ 4,257	\$ 83,029	\$ 7,866	\$ 26,868	\$ —
American Southern	53,661	3,307	34,486	8,170	8,262	53,362
Corporate & other	—	143	—	—	7,077	—
	<u>\$ 163,327</u>	<u>\$ 7,707</u>	<u>\$ 117,515</u>	<u>\$ 16,036</u>	<u>\$ 42,207</u>	<u>\$ 53,362</u>

See accompanying report of independent registered public accounting firm.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
REINSURANCE INFORMATION

	<u>Direct Amount</u>	<u>Ceded To Other Companies</u>	<u>Assumed From Other Companies</u>	<u>Net Amounts</u>	<u>Percentage of Amount Assumed To Net</u>
(Dollars in thousands)					
Year ended December 31, 2018:					
Life insurance in force	<u>\$ 232,311</u>	<u>\$ (12,263)</u>	<u>\$ —</u>	<u>\$ 220,048</u>	
Premiums —					
Bankers Fidelity	\$ 180,552	\$ (61,459)	\$ 31	\$ 119,124	0.0%
American Southern	39,233	(5,075)	19,649	53,807	36.5%
Total premiums	<u>\$ 219,785</u>	<u>\$ (66,534)</u>	<u>\$ 19,680</u>	<u>\$ 172,931</u>	<u>11.4%</u>
Year ended December 31, 2017:					
Life insurance in force	<u>\$ 255,506</u>	<u>\$ (14,902)</u>	<u>\$ —</u>	<u>\$ 240,604</u>	
Premiums —					
Bankers Fidelity	\$ 142,210	\$ (32,585)	\$ 41	\$ 109,666	0.0%
American Southern	39,248	(4,787)	19,200	53,661	35.8%
Total premiums	<u>\$ 181,458</u>	<u>\$ (37,372)</u>	<u>\$ 19,241</u>	<u>\$ 163,327</u>	<u>11.8%</u>

See accompanying report of independent registered public accounting firm.

**ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL INFORMATION CONCERNING
PROPERTY-CASUALTY INSURANCE OPERATIONS**

Year Ended	Deferred Policy Acquisition Costs	Reserves	Unearned Premiums	Earned Premiums	Net Investment Income	Claims and Claim Adjustment Expenses Incurred Related To		Amortization of Deferred Acquisition Costs	Paid Claims and Claim Adjustment Expenses	Premiums Written
						Current Year	Prior Years			
						(In thousands)				
December 31, 2018	<u>\$ 2,047</u>	<u>\$ 49,354</u>	<u>\$ 19,494</u>	<u>\$ 53,807</u>	<u>\$ 3,783</u>	<u>\$ 39,735</u>	<u>\$ (906)</u>	<u>\$ 7,921</u>	<u>\$ 36,680</u>	<u>\$ 54,410</u>
December 31, 2017	<u>\$ 2,075</u>	<u>\$ 47,997</u>	<u>\$ 19,178</u>	<u>\$ 53,661</u>	<u>\$ 3,307</u>	<u>\$ 37,016</u>	<u>\$(2,530)</u>	<u>\$ 8,170</u>	<u>\$ 33,459</u>	<u>\$ 53,362</u>

See accompanying report of independent registered public accounting firm.



Tel: 404-688-6841
Fax: 404-688-1075
www.bdo.com

1100 Peachtree Street NE, Suite 700
Atlanta, GA 30309-4516

September 14, 2018

Securities and Exchange Commission
100 F Street N.E.
Washington, D.C. 20549

We have been furnished with a copy of the response to Item 4.01 of Form 8-K for the event that occurred on September 13, 2018, to be filed by our former client, Atlantic American Corporation. We agree with the statements made in response to that Item insofar as they relate to our Firm.

Very truly yours,

/s/ BDO USA, LLP

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

***CONSENT OF DIXON HUGHES GOODMAN LLP
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM***

Board of Directors and Shareholders
Atlantic American Corporation

We consent to the incorporation by reference in the registration statements (Nos. 333-183207 and 333-183210) on Form S-8 of Atlantic American Corporation of our report dated April 1, 2019, with respect to the consolidated financial statements and schedules of Atlantic American Corporation as of and for the year ended December 31, 2018, which report appears in Atlantic American Corporation's Annual Report on Form 10-K.

/s/ Dixon Hughes Goodman LLP
Atlanta, Georgia
April 1, 2019

***CONSENT OF BDO USA LLP
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM***

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-183207 and 333-183210) of Atlantic American Corporation of our report dated March 26, 2018 relating to the consolidated financial statements and financial statement schedules of Atlantic American Corporation which appear in this Form 10-K.

/s/ BDO USA, LLP
Atlanta, Georgia
April 1, 2019

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Hilton H. Howell, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Atlantic American Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 1, 2019

/s/ Hilton H. Howell, Jr.

Hilton H. Howell, Jr.
President and Chief Executive Officer

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, J. Ross Franklin, certify that:

1. I have reviewed this annual report on Form 10-K of Atlantic American Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 1, 2019

/s/ J. Ross Franklin

J. Ross Franklin
Vice President and
Chief Financial Officer

Certifications Pursuant to §906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Annual Report on Form 10-K of Atlantic American Corporation (the “Company”) for the year ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies, that, to such officer’s knowledge:

- (1) The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: April 1, 2019

/s/ Hilton H. Howell, Jr.

Hilton H. Howell, Jr.
President and Chief Executive Officer

Date: April 1, 2019

/s/ J. Ross Franklin

J. Ross Franklin
Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

Commission file number 0-3722

ATLANTIC AMERICAN CORPORATION

(Exact name of registrant as specified in its charter)

Georgia

(State or other jurisdiction of incorporation or organization)

58-1027114

(I.R.S. Employer Identification No.)

4370 Peachtree Road, N.E.,

Atlanta, Georgia

(Address of principal executive offices)

30319

(Zip Code)

(Registrant's telephone number, including area code) **(404) 266-5500**

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$1.00 per share	AAME	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 and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if a 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 common stock held by non-affiliates of the registrant as of June 30, 2019, the last business day of the registrant's most recently completed second fiscal quarter, was \$10,800,070. For purposes hereof, beneficial ownership is determined under rules adopted pursuant to Section 13 of the Securities Exchange Act of 1934, and the foregoing excludes value ascribed to common stock that may be deemed beneficially owned by the directors and executive officers, and 10% or greater stockholders, of the registrant, some of whom may not be deemed to be affiliates upon judicial determination. On March 13, 2020 there were 20,472,162 shares of the registrant's common stock, par value \$1.00 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the registrant's Proxy Statement for the 2020 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year end, have been incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

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PART I

Item 1. Business

The Company

Atlantic American Corporation, a Georgia corporation incorporated in 1968 (the “Parent” or “Company”), is a holding company that operates through its subsidiaries in well-defined specialty markets within the life and health and property and casualty insurance industries. The Parent’s principal operating subsidiaries are American Southern Insurance Company and American Safety Insurance Company (together known as “American Southern”) within the property and casualty insurance industry and Bankers Fidelity Life Insurance Company and Bankers Fidelity Assurance Company (together known as “Bankers Fidelity”) within the life and health insurance industry. Each of American Southern and Bankers Fidelity is managed separately based upon the type of products it offers, and is evaluated on its individual performance. The Company’s strategy is to focus on well-defined geographic, demographic and/or product niches within the insurance marketplace. Each of American Southern and Bankers Fidelity operates with relative autonomy, which structure is designed to allow for quick reaction to market opportunities.

The Parent has no significant business operations of its own and relies on fees, dividends and other distributions from its operating subsidiaries as the principal source of cash flow to meet its obligations. Additional information regarding the cash flow and liquidity needs of the Parent can be found in the Liquidity and Capital Resources section of Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Property and Casualty Operations

American Southern comprises the Company’s property and casualty operations and its primary product lines are as follows:

Business Automobile Insurance policies provide bodily injury and/or property damage liability coverage, uninsured motorist coverage and physical damage coverage for commercial accounts.

General Liability Insurance policies cover bodily injury and property damage liability for both premises and completed operations exposures for general classes of business.

Surety Bonds are contracts under which one party, the insurance company issuing the surety bond, guarantees to a third party that the primary party will fulfill an obligation in accordance with a contractual agreement. This obligation may involve meeting a contractual commitment, paying a debt or performing certain duties.

American Southern provides tailored business automobile insurance coverage, on a multi-year contract basis, to state governments, local municipalities and other large motor pools and fleets (“block accounts”) that can be specifically rated and underwritten. The size of the block accounts insured by American Southern are generally such that individual class experience can be determined, which allows for customized policy terms and rates. American Southern is licensed to do business in 32 states and the District of Columbia. While the majority of American Southern’s premiums are derived from its automobile lines of business, American Southern also offers inland marine and general liability coverages. Additionally, American Southern directly provides surety bond coverage for school bus transportation and subdivision construction, as well as performance and payment bonds.

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The following table summarizes, for the periods indicated, the allocation of American Southern's net earned premiums from each of its principal product lines:

	Year Ended December 31,	
	2019	2018
	(In thousands)	
Automobile liability	\$ 30,649	\$ 28,840
Automobile physical damage	15,309	11,922
General liability	3,309	2,920
Surety	6,319	7,170
Other lines	3,094	2,955
Total	<u>\$ 58,680</u>	<u>\$ 53,807</u>

Life and Health Operations

Bankers Fidelity comprises the life and health operations of the Company and offers a variety of life and supplemental health products. Products offered by Bankers Fidelity include ordinary and term life insurance, Medicare supplement and other accident and health insurance products. Health insurance products, primarily Medicare supplement insurance, accounted for 93% of Bankers Fidelity's net earned premiums in 2019 while life insurance, including both whole and term life insurance policies, accounted for the balance. In terms of the number of policies written in 2019, 87% were health insurance policies and 13% were life insurance policies.

The following table summarizes, for the periods indicated, the allocation of Bankers Fidelity's net earned premiums from each of its principal product lines followed by a brief description of the principal products:

	Year Ended December 31,	
	2019	2018
	(In thousands)	
Life insurance	\$ 8,427	\$ 8,921
Medicare supplement	107,001	102,658
Other accident and health	7,817	7,545
Total health insurance	<u>114,818</u>	<u>110,203</u>
Total	<u>\$ 123,245</u>	<u>\$ 119,124</u>

Life Insurance products include non-participating term, individual and group whole life insurance policies with a variety of riders and options. Policy premiums are dependent upon a number of factors, including issue age, level of coverage and selected riders or options.

Medicare Supplement Insurance includes 8 of the 11 standardized Medicare supplement policies created under the Medicare Improvements for Patients and Providers Act of 2008 ("MIPPA"), which are designed to provide insurance coverage for certain expenses not covered by the Medicare program, including copayments and deductibles.

Other Accident and Health Insurance coverages include several individual and group policies providing for the payment of standard benefits in connection with the treatment of diagnosed cancer and other critical illnesses, as well as a number of other policies providing nursing facility care, accident expense, hospital indemnity and disability coverages.

Marketing

Property and Casualty Operations

A portion of American Southern's business is marketed through a small number of specialized, experienced independent agents. American Southern's agent selection process is actively managed by internal marketing personnel with oversight from management. Senior management carefully reviews all new programs prior to acceptance. Most of American Southern's agents are paid an up-front commission with the potential for additional commissions by participating in a profit sharing arrangement that is directly linked to the profitability

of the underlying business. American Southern also solicits business from governmental entities. As an experienced writer of insurance policies for certain governmental programs, the company actively pursues this market on a direct basis. Much of this business is priced by means of competitive bid situations and there can be no assurance with respect to ultimate profitability or that the company can obtain or retain such business at the time of a specific contract renewal.

Life and Health Operations

Bankers Fidelity acquires its clientele through three distribution channels spread across 46 different states and two business divisions, all of which utilize commissioned, independent agents. The three distribution channels include traditional independent agents, brokers typically interested in a specific product of Bankers Fidelity and brokers who focus on sales within the group/employer benefits arena of BankersWorksite, all of which are responsible for their own marketing and sales activities. Contracting as independent agents enables Bankers Fidelity to effectively expand or contract its sales force without incurring significant expense.

Bankers Fidelity had 5,783 licensed agents contracted in both senior market and worksite divisions as of December 31, 2019. During 2019, approximately 1,465 of these licensed agents wrote policies on behalf of Bankers Fidelity.

Bankers Fidelity's marketing and distribution strategy revolves around five pillars: Diversification, Differentiation, Quality, Retention and Profitability.

Diversification. Through unique product offerings such as the Vantage Recovery®, short-term care product and a group whole life product featuring a chronic illness rider, the Company is able to offer its distributors an array of products to sell that stand out from the competition. As the Company continues to expand its geographical footprint with agents and products, one of its main objectives is to have a healthy mix of all of its product lines nationwide.

Differentiation. Bankers Fidelity prides itself on the quality of Customer Service it offers to policyholders and agents. A dedicated agent support team is available to the field to support them on administration, underwriting, sales training, product questions and a plethora of other services which differentiates the Company from other carriers. Additionally, a customer loyalty team is available solely to serve insureds for any of their insurance needs. Unlike larger carriers, Bankers Fidelity prides itself on being agile which helps to quickly execute senior management's initiatives.

Quality. Bankers Fidelity is focused on being a niche carrier that delivers superior service, quality products and innovative solutions. Sophisticated technology and reporting allows the home office teams to work with the sales force to deliver a tailored experience and phenomenal customer service.

Retention. Through seasonal campaigns and customer outreach, the Company is focused on client retention and servicing its policyholder's through various stages in their life. By providing its agents with an innovative product portfolio they are able to meet the needs of our policyholders at all stages of their lives.

Profitability. In an effort to be sustainable in the marketplace as a long-term partner, senior management is focused on diversification, differentiation, quality and retention to ultimately service its policyholders and agents and provide security to home office employees.

Underwriting

Property and Casualty Operations

American Southern specializes in underwriting various risks that are sufficiently large enough to establish separate class experience, relying upon the underwriting expertise of its agents.

During the course of the policy life, extensive use is made of risk management representatives to assist commercial underwriters in identifying and correcting potential loss exposures and to physically inspect new accounts. The underwriting results from each insured are reviewed on an individual basis periodically. When results are below expectations, management takes corrective action which may include adjusting rates, revising underwriting standards, adjusting commissions paid to agents, and/or altering or declining to renew accounts at expiration.

Life and Health Operations

Bankers Fidelity issues a variety of products that span from the worksite markets to the senior markets for both life and health insurance. Products offered by Bankers Fidelity include life insurance, typically with small face amounts, Medicare supplement and other accident and health insurance. Bankers Fidelity also provides an array of worksite products such as accident, cancer, critical illness, hospital indemnity and life insurance that is offered to employers who are looking to provide coverage for their employees and have the related premiums deducted through payroll deductions.

The majority of the products are underwritten on a non-medical basis using a simplified issue approach by which an application containing a variety of health related questions is submitted. Applications for insurance are reviewed to determine the face amount, age, medical history and any other necessary information. Bankers Fidelity utilizes information obtained directly from the insured, the medical claims data, prescription utilization reports as well as telephone interviews to determine whether an applicant meets the company's underwriting criteria. Bankers Fidelity may also utilize medical records and investigative services to supplement and substantiate information, as necessary.

Policyholder and Claims Services

The Company believes that prompt, efficient policyholder and claims services are essential to its continued success in marketing its insurance products (see "Competition"). Additionally, the Company believes that its insureds are particularly sensitive to claims processing time and to the accessibility of qualified staff to answer inquiries. Accordingly, the Company's policyholder and claims services seek to offer expeditious disposition of service requests by providing toll-free access for all customers, 24-hour claim reporting services, and direct computer links with some of its largest accounts. The Company also utilizes an automatic call distribution system to ensure that inbound calls to customer service support groups are processed efficiently. Operational data generated from this system allows management to further refine ongoing client service programs and service representative training modules.

Property and Casualty Operations

American Southern controls its claims costs by utilizing an in-house staff of claims supervisors to investigate, verify, negotiate and settle claims. Upon notification of an occurrence purportedly giving rise to a claim, a claim file is established. The claims department then conducts a preliminary investigation, determines whether an insurable event has occurred and, if so, updates the file for the findings and any required reserve adjustments. Frequently, independent adjusters and appraisers are utilized to service claims which require on-site inspections.

Life and Health Operations

Insureds may obtain claim forms by calling the claims department customer service group or through Bankers Fidelity's website. To shorten claim processing time, a letter detailing all supporting documents that are required to complete a claim for a particular policy is sent to the customer along with the correct claim form. With respect to life policies, the claim is entered into Bankers Fidelity's claims system when the proper documentation is received. Properly documented claims are generally paid within five business days of receipt. With regard to Medicare supplement policies, the claim is either directly billed to Bankers Fidelity by the provider or sent electronically through a Medicare clearing house.

Reserves

Reserves are set by line of business within each of the subsidiaries. At December 31, 2019, approximately 64% of the reserves related to property and casualty losses and approximately 36% related to life and health losses. The Company's property and casualty operations incur losses which may take extended periods of time to evaluate and settle. Issues with respect to legal liability, actual loss quantification, legal discovery and ultimate subrogation, among other factors, may influence the initial and subsequent estimates of loss. In the property and casualty operations, the Company's general practice is to reserve at the higher end of the determined reasonable range of loss if no other value within the range is determined to be more probable. The Company's life and health operations generally incur losses which are more readily quantified. Medical claims received are recorded in case reserves based on contractual terms using the submitted billings as a basis for determination. Life claims

are recorded based on contract value at the time of notification to the Company; although policy reserves related to such contracts have been previously established. Individual case reserves are established by a claims processor on each individual claim and are periodically reviewed and adjusted as new information becomes known during the course of handling a claim. Regular internal periodic reviews are also performed by management to ensure that loss reserves are established and revised timely relative to the receipt of new or additional information. Lines of business for which loss data (e.g. paid losses and case reserves) emerge over a long period of time are referred to as long-tail lines of business. Lines of business for which loss data emerge more quickly are referred to as short-tail lines of business. The Company's long-tail line of business generally consists of its general liability coverage while the short-tail lines of business generally consist of property and automobile coverages.

The Company's actuaries regularly review reserves for both current and prior accident years using the most current claims data. These reviews incorporate a variety of actuarial methods (discussed in Critical Accounting Policies) and judgments and involve a disciplined analysis. For most lines of business, certain actuarial methods and specific assumptions are deemed more appropriate based on the current circumstances affecting that line of business. These selections incorporate input from claims personnel and operating management on reported loss cost trends and other factors that could affect the reserve estimates.

For long-tail lines of business, the emergence of paid losses and case reserves is less credible in the early periods, and accordingly may not be indicative of ultimate losses. For these lines, methods which incorporate a development pattern assumption are given less weight in calculating incurred but not reported ("IBNR") reserves for the early periods of loss emergence because such a low percentage of ultimate losses are reported in that time frame. Accordingly, for any given accident year, the rate at which losses on long-tail lines of business emerge in the early periods is generally not as reliable an indication of ultimate losses as it would be for shorter-tail lines of business. The estimation of reserves for these lines of business in the early periods of loss emergence is therefore largely influenced by statistical analyses and application of prior accident years' loss ratios, after considering changes to earned pricing, loss costs, mix of business, ceded reinsurance and other factors that are expected to affect the estimated ultimate losses. For later periods of loss emergence, methods which incorporate a development pattern assumption are given more weight in estimating ultimate losses. For short-tail lines of business, the emergence of paid loss and case reserves is more credible in the early periods and is more likely to be indicative of ultimate losses. The method used to set reserves for these lines of business is based upon utilization of a historical development pattern for reported losses. IBNR reserves for the current year are set as the difference between the estimated fully developed ultimate losses for each year, less the established, related case reserves and cumulative related payments. IBNR reserves for prior accident years are similarly determined, again relying on an indicated, historical development pattern for reported losses.

Based on the results of regular reserve estimate reviews, the Company determines the appropriate reserve adjustment, if any, to record in each period. If necessary, recorded reserve estimates are changed after consideration of numerous factors, including, but not limited to, the magnitude of the difference between the actuarial indication and the recorded reserves, improvement or deterioration of actuarial indication in the period, the maturity of the accident year, trends observed over the recent past and the level of volatility within a particular line of business. In general, changes are made more quickly to recognize changes in estimates to ultimate losses in mature accident years and less volatile lines of business.

Estimating case reserves and ultimate losses involves various considerations which differ according to the line of business. In addition, changes in legislative and regulatory environments may impact loss estimates. General liability claims may have a long pattern of loss emergence. Given the broad nature of potential general liability coverages, investigative time periods may be extended and questions of coverage may exist. Such uncertainties create greater imprecision in estimating required levels of loss reserves. The property and automobile lines of business generally have less variable reserve estimates than other lines. This is largely due to the coverages having relatively shorter periods of loss emergence. Estimates, however, can still vary due to a number of factors, including interpretations of frequency and severity trends. Severity trends can be impacted by changes in internal claim handling and reserving practices in addition to changes in the external environment. These changes in claim practices increase the uncertainty in the interpretation of case reserve data, which increases the uncertainty in recorded reserve levels.

The Company's policy is to record reserves for losses and claims in amounts which approximate actuarial best estimates of ultimate values. Actuarial best estimates do not necessarily represent the midpoint value determined using the various actuarial methods; however, such estimates will fall between the estimated low and

high end reserve values. The range of estimates developed in connection with the December 31, 2019 actuarial review indicated that reserves could be as much as 8.5% lower or as much as 4.2% higher. In the opinion of management, recorded reserves represent the best estimate of outstanding losses, although significant judgments are made in the derivation of reserve estimates and revisions to such estimates are expected to be made in future periods. Any such revisions could be material, and may materially adversely affect the Company's financial condition and results of operations in any future period.

Property and Casualty Operations

American Southern maintains loss reserves representing estimates of amounts necessary for payment of losses and loss adjustment expense ("LAE"), and which are not discounted. IBNR reserves are also maintained for future development. These loss reserves are estimates, based on known facts and circumstances at a given date, of amounts the Company expects to pay on incurred claims. All balances are reviewed periodically by the Company's independent consulting actuary. Reserves for LAE are intended to cover the ultimate costs of settling claims, including investigation and defense of any lawsuits resulting from such claims. Loss reserves for reported claims are based on a case-by-case evaluation of the type of claim involved, the circumstances surrounding the claim, and the policy provisions relating to the type of loss along with anticipated future development. The LAE for claims reported and claims not reported is based on historical statistical data and anticipated future development. Inflation and other factors which may affect claim payments are implicitly reflected in the reserving process through analysis and consideration of cost trends and reviews of historical reserve results.

American Southern establishes reserves for claims based upon: (a) management's estimate of ultimate liability and claims adjusters' evaluations of unpaid claims reported prior to the close of the accounting period, (b) estimates of IBNR claims based on past experience, and (c) estimates of LAE. If no value is determined to be more probable in estimating a loss after considering all factors, the Company's general practice is to reserve at the higher end of the determined reasonable range of loss. The estimated liability is periodically reviewed and updated, and changes to the estimated liability are recorded in the statement of operations in the period in which such changes become known.

Life and Health Operations

Bankers Fidelity establishes liabilities for future policy benefits to meet projected future obligations under outstanding policies. These reserves are calculated to satisfy policy and contract obligations as they mature. The amount of reserves for insurance policies is calculated using assumptions for interest rates, mortality and morbidity rates, expenses, and withdrawals. Reserves are adjusted periodically based on published actuarial tables with modifications to reflect actual experience. The use of significantly different assumptions, or actual results that differ significantly from our estimates, could materially adversely affect our liquidity, results of operations or financial condition.

See Note 5 of Notes to Consolidated Financial Statements for more information on insurance reserves and policyholder funds.

Reinsurance

The Company's insurance subsidiaries from time to time purchase reinsurance from unaffiliated insurers and reinsurers to reduce their potential liability on individual risks and to protect against catastrophic losses. In a reinsurance transaction, an insurance company transfers, or "cedes," a portion or all of its exposure on insurance policies to a reinsurer. The reinsurer assumes the exposure in return for a portion of the premiums. The ceding of insurance does not legally discharge the insurer from primary liability for the full amount of the policies written by it, and the ceding company will incur a loss if the reinsurer fails to meet its obligations under the reinsurance agreement.

Property and Casualty Operations

American Southern's basic reinsurance treaties generally cover all claims in excess of specified per occurrence limitations. Limits per occurrence within the reinsurance treaties are as follows: Inland marine and commercial automobile physical damage - \$175,000 excess of \$100,000 retention; and automobile liability and general liability - excess coverage of \$2.0 million less retentions that may vary from \$100,000 to \$200,000

depending on the account. American Southern maintains a property catastrophe treaty with a \$5.7 million limit excess of \$300,000 retention. American Southern also issues individual surety bonds with face amounts generally up to \$1.5 million, and limited to \$5.0 million in aggregate per account, that are not reinsured.

Life and Health Operations

Bankers Fidelity has entered into reinsurance contracts ceding the excess of its life retention. Maximum retention by Bankers Fidelity on any one individual in the case of life insurance policies is \$100,000. At December 31, 2019, \$11.4 million of the \$257.7 million of life insurance in force at Bankers Fidelity was reinsured under a mix of coinsurance and yearly renewable term agreements. Certain prior year reinsurance agreements also remain in force although they no longer provide reinsurance for new business.

Bankers Fidelity has also entered into a reinsurance contract ceding excess new Medicare supplement business to General Re Life Corporation. Ceding thresholds are set annually. During 2019, the liability of the reinsurer was 50% of all new Medicare supplement business issued by the Company on amounts up to a maximum retention of \$15.0 million of annualized premium. Accordingly, \$8.0 million of the company's \$16.0 million of new annualized Medicare supplement premium was ceded.

Competition

Competition for insurance products is based on many factors including premiums charged, terms and conditions of coverage, service provided, financial ratings assigned by independent rating agencies, claims services, reputation, perceived financial strength and the experience of the organization in the line of business being written.

Property and Casualty Operations

The businesses in which American Southern engages are highly competitive. The principal areas of competition are pricing and service. Many competing property and casualty companies, which have been in business longer than American Southern, offer more diversified lines of insurance and have substantially greater financial resources. Management believes, however, that the policies it sells are competitive with those providing similar benefits offered by other insurers doing business in the states in which American Southern operates. American Southern attempts to develop strong relationships with its agents and, consequently, believes it is better positioned for new opportunities and programs with those agents.

Life and Health Operations

The life and health insurance business remains highly competitive and includes a large number of insurance companies, many of which are new entrants to the business of providing Medicare supplement and other accident and health insurance products. Bankers Fidelity has established itself as a trusted carrier of choice for its customers providing quality and sustainability for nearly 65 years.

In order to compete, Bankers Fidelity actively seeks opportunities in niche markets, developing long-term relationships with a select number of independent marketing organizations. Additionally, Bankers Fidelity actively promotes BankersWorksite, the group benefits division, as well as selective association partnerships. It competes with other insurers to attract and retain the allegiance of its independent agents through commission and sales incentive arrangements, accessibility and marketing assistance, lead programs, reputation and market expertise. Bankers Fidelity successfully competes in its chosen markets by establishing relationships with independent agents and providing proprietary marketing initiatives as well as providing outstanding service to policyholders.

Ratings

Ratings of insurance companies are not designed for investors and do not constitute recommendations to buy, sell, or hold any security. Ratings are important measures within the insurance industry, and higher ratings should have a favorable impact on the ability of a company to compete in the marketplace.

Each year A.M. Best Company, Inc. ("A.M. Best") publishes Best's Insurance Reports, which includes assessments and ratings of all insurance companies. A.M. Best's ratings, which may be revised or revoked at any time, follow a graduated scale of rating categories and notches ranging from A++ (Superior) to F (in liquidation). A.M. Best's ratings are based on a detailed analysis of the statutory financial condition and operations of an insurance company compared to the industry in general.

American Southern. American Southern Insurance Company and its wholly-owned subsidiary, American Safety Insurance Company, are each, as of the date of this report, rated “A” (Excellent) by A.M. Best.

Bankers Fidelity. Bankers Fidelity Life Insurance Company and its wholly-owned subsidiary, Bankers Fidelity Assurance Company, are each, as of the date of this report, rated “A-” (Excellent) by A.M. Best.

Regulation

In common with all domestic insurance companies, the Company’s insurance subsidiaries are subject to regulation and supervision in the jurisdictions in which they do business. Statutes typically delegate regulatory, supervisory, and administrative powers to state insurance commissioners. The method of such regulation varies, but regulation relates generally to the licensing of insurers and their agents, the nature of and limitations on investments, approval of policy forms, reserve requirements, the standards of solvency to be met and maintained, deposits of securities for the benefit of policyholders, and periodic examinations of insurers and trade practices, among other things. The Company’s products generally are subject to rate regulation by state insurance commissions, which require that certain minimum loss ratios be maintained. Certain states also have insurance holding company laws which require registration and periodic reporting by insurance companies controlled by other corporations licensed to transact business within their respective jurisdictions. The Company’s insurance subsidiaries are subject to such legislation and are registered as controlled insurers in those jurisdictions in which such registration is required. Such laws vary from state to state, but typically require periodic disclosure concerning the corporation which controls the registered insurers and all subsidiaries of such corporations, as well as prior notice to, or approval by, the state insurance commissioners of intercorporate transfers of assets (including payments of dividends by the insurance subsidiaries in excess of specified amounts) within the holding company system. The Company believes it is in compliance with all such requirements.

Most states require that rate schedules and other information be filed with the state’s insurance regulatory authority, either directly or through a ratings organization with which the insurer is affiliated. The regulatory authority may disapprove a rate filing if it determines that the rates are inadequate, excessive, or discriminatory. The Company has historically experienced no significant regulatory resistance to its applications for rate adjustments; however, the Company cannot provide any assurance that it will not receive any objections to any applications in the future.

A state may require that acceptable securities be deposited for the protection either of policyholders located in those states or of all policyholders. As of December 31, 2019, the Company was in compliance with all such requirements, and securities with an amortized cost of \$10.7 million were on deposit either directly with various state authorities or with third parties pursuant to various custodial agreements on behalf of the Company’s insurance subsidiaries.

Virtually all of the states in which the Company’s insurance subsidiaries are licensed to transact business require participation in their respective guaranty funds designed to cover claims against insolvent insurers. Insurers authorized to transact business in these jurisdictions are generally subject to assessments of up to 4% of annual direct premiums written in that jurisdiction to pay such claims, if any. The likelihood and amount of any future assessments cannot be estimated until an insolvency has occurred.

NAIC Ratios

The National Association of Insurance Commissioners (the “NAIC”) was established to, among other things, provide guidelines to assess the financial strength of insurance companies for state regulatory purposes. The NAIC conducts annual reviews of the financial data of insurance companies primarily through the application of financial ratios prepared on a statutory basis. Annual statements are required to be submitted to state insurance departments to assist them in monitoring insurance companies in their state and to allow such states to determine a desirable range for each such ratio with which companies should comply.

The NAIC developed the Insurance Regulatory Information System (“IRIS”) to help state regulators identify companies that may require regulatory attention. Financial examiners review annual financial statements and the results of key financial ratios based on year-end data with the goal of identifying insurers that appear to require immediate regulatory attention. Each ratio has an established “usual range” of results. A ratio result falling outside the usual range, however, is not necessarily considered adverse; rather, unusual values are used as part of the regulatory early monitoring system. Furthermore, in some years, it may not be unusual for financially

sound companies to have several ratios with results outside the usual ranges. Generally, an insurance company may become subject to regulatory scrutiny or, depending on the company's financial condition, regulatory action if certain of its key IRIS ratios fall outside the usual ranges and the insurer's financial condition is trending downward.

For the year ended December 31, 2019, Bankers Fidelity Life Insurance Company had two ratios outside the usual range, primarily as a result of a decline in net income and net change in surplus before considering paid in amounts. However, after considering paid in amounts, the gross change in surplus would result in a value within the usual range. Bankers Fidelity Assurance Company had three ratios outside the usual range, primarily as a result of net loss for the year and certain surplus ratios. The net loss at Bankers Fidelity Assurance Company is primarily related to federal income taxes incurred which resulted in a corresponding decrease in surplus levels for the year. American Southern Insurance Company and American Safety Insurance Company had no IRIS ratios outside the usual ranges. Management does not anticipate regulatory action as a result of the 2019 IRIS ratio results for the insurance subsidiaries.

Risk-Based Capital

Risk-based capital ("RBC") is a metric used by ratings agencies and regulators as an early warning tool to identify weakly capitalized companies for the purpose of initiating further regulatory action. The RBC calculation determines the amount of adjusted capital needed by a company to avoid regulatory action. "Authorized Control Level Risk-Based Capital" ("ACL") is calculated, and if a company's adjusted capital is 200% or lower than ACL, it is subject to regulatory action. At December 31, 2019, the Company's insurance subsidiaries' RBC levels exceeded the required regulatory levels.

Information Technology and Cybersecurity

The Company's operations rely on the secure processing, storage, and transmission of confidential and personal identifiable information within technology platforms. Cybersecurity is a high priority and the Company has made significant investments in order to prevent, detect, and respond to cyber threats. In recent years, the Company has enhanced intrusion protection and detection technology, infrastructure and application firewalls, and network monitoring. The Company has also installed advanced endpoint threat protection technology and implemented a mandatory security awareness training program for all employees.

The Company has a sophisticated technology environment that supports the replication of data across multiple secure data centers. It is a comprehensive disaster recovery plan that is continually tested to ensure capabilities to resume business in the event of a disaster. The Company's technology environment is managed by an experienced team of professionals who follow an extensive set of policies and procedures related to data security. Through recurring internal and external audits, controls are regularly reviewed, tested, and enhanced to ensure best practices. The Company has augmented the information security program through a partnership with a leading global cybersecurity provider to review and implement additional services such as Security Event Monitoring, Advanced Endpoint Threat Detection, Incident Management Retainer Services, and Strategic Advisory Services focused on Chief Information Security Officer (CISO) duties such as counter-threat intelligence.

The information security program also includes a cybersecurity Incident Response Plan ("IRP") that was established to help protect the integrity, availability and confidentiality of information, prevent loss of service, and comply with legal requirements. The IRP specifies the process for identifying and reporting an incident, initial investigation, risk classification, documentation and communication of incidents, responder procedures, incident reporting, and ongoing training. Additionally, the IRP specifies the notification to directors, officers, and other corporate insiders to not trade the Company's securities while in possession of potentially material nonpublic information about the incident.

The Audit Committee of the Board of Directors has oversight of the Company's information security program. The Company's senior officers, including its Chief Information Officer, are responsible for the operation of the information security program and regularly communicate with the Audit Committee on the state of the program.

The Company also maintains dedicated cyber liability insurance for breach event costs including post breach event remediation costs; cyber crime coverage (including financial fraud, telecommunications fraud, and phishing attacks); and coverage for system failure, bricking loss, and physical damage. The policy also provides coverage for lost revenue due to a damaged reputation from a cyber breach.

Investments

Investment income represents a significant portion of the Company's operating and total income. Insurance company investments are subject to state insurance laws and regulations which limit the concentration and types of investments. The following table provides information on the Company's investments as of the dates indicated.

	December 31,			
	2019		2018	
	Amount	Percent	Amount	Percent
(Dollars in thousands)				
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 20,259	7.5%	\$ 27,422	11.3%
States, municipalities and political subdivisions	11,940	4.5	8,364	3.5
Public utilities	11,449	4.3	13,524	5.6
All other corporate bonds	188,574	70.2	160,884	66.5
Redeemable preferred stock	250	0.1	192	0.1
Total fixed maturities ⁽¹⁾	232,472	86.6	210,386	87.0
Common and non-redeemable preferred stocks ⁽²⁾	22,922	8.5	20,758	8.6
Policy loans ⁽³⁾	2,007	0.7	2,085	0.9
Other invested assets ⁽⁴⁾	9,960	3.7	7,424	3.0
Real estate	38	0.0	38	0.0
Investments in unconsolidated trusts	1,238	0.5	1,238	0.5
Total investments	\$ 268,637	100.0%	\$ 241,929	100.0%

⁽¹⁾ Fixed maturities are carried on the balance sheet at estimated fair value. Certain fixed maturities do not have publicly quoted prices, and are carried at estimated fair value as determined by management. Total adjusted cost of fixed maturities was \$219.2 million as of December 31, 2019 and \$219.9 million as of December 31, 2018.

⁽²⁾ Equity securities are carried on the balance sheet at estimated fair value. Total adjusted cost of equity securities was \$7.2 million as of December 31, 2019 and \$10.5 million as of December 31, 2018.

⁽³⁾ Policy loans are valued at unpaid principal balances.

⁽⁴⁾ Other invested assets are accounted for using the equity method. Total adjusted cost of other invested assets was \$9.9 million as of December 31, 2019 and \$6.9 million as of December 31, 2018.

Estimated fair values are determined as discussed in Note 1 of Notes to Consolidated Financial Statements.

Results of the Company's investment portfolio for periods shown were as follows:

	Year Ended December 31,	
	2019	2018
(Dollars in thousands)		
Average investments ⁽¹⁾	\$ 253,467	\$ 252,480
Net investment income	8,979	9,549
Average yield on investments	3.5%	3.8%
Realized investment gains, net	1,574	5,154

⁽¹⁾ Calculated as the average of cash and investment balances (at amortized cost) at the beginning of the year and at the end of each of the succeeding four quarters.

During 2019, the Company engaged a global investment management firm serving the insurance industry to manage the Company's investment portfolios. Management's recent investment strategy has been a continued focus on quality and diversification, while improving the overall risk versus return profile of the portfolio.

Employees

The Company and its subsidiaries employed 155 people at December 31, 2019. Of the 155 people employed at December 31, 2019, 151 were full-time.

Financial Information by Industry Segment

Each of American Southern and Bankers Fidelity operate with relative autonomy and each company is evaluated on its individual performance. American Southern operates in the property and casualty insurance

market, while Bankers Fidelity operates in the life and health insurance market. Each segment derives revenue from the collection of premiums, as well as from investment income. Substantially all revenue other than that in the corporate and other segment is from external sources. See Note 15 of Notes to Consolidated Financial Statements.

Available Information

The Company files annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports and other information with the Securities and Exchange Commission (the “SEC”). The public can read and obtain copies of those materials by visiting the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements and other information regarding issuers like the Company that file electronically with the SEC. The address of the SEC’s web site is www.sec.gov. In addition, as soon as reasonably practicable after such materials are filed with or furnished to the SEC by the Company, the Company makes copies available to the public, free of charge, on or through its web site at www.atlam.com. Neither the Company’s website, nor the information appearing on the website, is included, incorporated into, or a part of, this report.

Executive Officers of the Registrant

The table below and the information following the table set forth, for each executive officer of the Company as of December 31, 2019, his name, age, positions with the Company and business experience for the past five years, as well as any prior service to the Company.

Name	Age	Positions with the Company	Director or Officer Since
Hilton H. Howell, Jr.	57	Chairman of the Board, President & CEO	1992
J. Ross Franklin	42	Vice President, CFO and Corporate Secretary	2017

Officers are elected annually and serve at the discretion of the board of directors.

Mr. Howell has been President and Chief Executive Officer of the Company since May 1995, and prior thereto served as Executive Vice President of the Company from October 1992 to May 1995. He has been a Director of the Company since October 1992 and effective February 24, 2009, began serving as Chairman of the board of directors. He is also Executive Chairman and Chief Executive Officer of Gray Television, Inc.

Mr. Franklin has been Vice President, Chief Financial Officer and Corporate Secretary of the Company since November 2017, and prior thereto served as Interim Chief Financial Officer from August 2017 to November 2017. Since 2000 he has held various roles of increasing responsibility with Atlantic American and its subsidiaries, previously serving as Vice President, Accounting and Treasurer of Bankers Fidelity since 2009.

Forward-Looking Statements

Certain of the statements contained or incorporated by reference herein are forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Exchange Act of 1933, and Section 21E of the Securities Act of 1934, and include estimates and assumptions related to, among other things, general economic, competitive, operational and legislative developments. Forward-looking statements are subject to changes and uncertainties which are, in many instances, beyond the Company’s control and have been made based upon management’s current expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with management’s expectations or that the effect of future developments on the Company will be those anticipated by management. Actual results could differ materially from those expected by the Company, depending on the occurrence or outcome of various factors. These factors include, among others: significant changes in general economic conditions; the possible occurrence of terrorist attacks; unexpected developments in the health care or insurance industries affecting providers or individuals, including the cost or availability of services, or the tax consequences related thereto; disruption to the financial markets; unanticipated increases in the rate, number and amounts of claims outstanding; the level of performance of

reinsurance companies under reinsurance contracts and the availability, pricing and adequacy of reinsurance to protect the Company against losses; changes in the stock markets, interest rates or other financial markets, including the potential effect on the Company's statutory capital levels; the uncertain effect on the Company of regulatory and market-driven changes in practices relating to the payment of incentive compensation to brokers, agents and other producers; the incidence and severity of catastrophes, both natural and man-made; stronger than anticipated competitive activity; unfavorable judicial or legislative developments; the potential effect of regulatory developments, including those which could increase the Company's business costs and required capital levels; the Company's ability to distribute its products through distribution channels, both current and future; the uncertain effect of emerging claim and coverage issues; the effect of assessments and other surcharges for guaranty funds and other mandatory pooling arrangements; and risks related to cybersecurity matters, such as breaches of our computer network or the loss of unauthorized access to the data we maintain. Many of such factors are beyond the Company's ability to control or predict. As a result, the Company's actual financial condition and results of operations could differ materially from those expressed in any forward-looking statements made by the Company. Undue reliance should not be placed upon forward-looking statements. The Company does not intend to publicly update any forward-looking statements that may be made from time to time by, or on behalf of, the Company.

Item 1A. Risk Factors

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K (a "smaller reporting company"), we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the information required by this Item.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Leased Properties. The Company leases space for its principal offices and for some of its insurance operations in an office building located in Atlanta, Georgia, from Delta Life Insurance Company under a lease which continues until either party provides written notice of cancellation at least twelve months in advance of the actual termination date. The lease, which commenced on November 1, 2007, provides for rent adjustments on every fifth anniversary of the commencement date. Under the current terms of the lease, the Company occupies approximately 49,586 square feet of office space. Delta Life Insurance Company, the owner of the building, is controlled by an affiliate of the Company. The terms of the lease are believed by Company management to be comparable to terms which could be obtained by the Company from unrelated parties for comparable rental property.

American Southern leases space for its office in a building located in Atlanta, Georgia. The lease term expires September 30, 2026. Under the terms of the lease, American Southern occupies approximately 17,014 square feet.

The Company believes that its current properties are in good condition, and are sufficient for the operations of its business.

Item 3. Legal Proceedings

From time to time, the Company and its subsidiaries are, and expect to continue to be, involved in various claims and lawsuits arising in the ordinary course of business, both as a liability insurer defending third-party claims brought against insureds and as an insurer defending coverage claims brought against it. The Company accounts for such exposures through the establishment of loss and loss adjustment expense reserves. We do not expect that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for probable losses and costs of defense, will be material to the Company's consolidated financial condition, although the results of such litigation could be material to the consolidated results of operations for any given period.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The Company’s common stock is quoted on the Nasdaq Global Market (Symbol: AAME). As of March 13, 2020, there were 2,436 shareholders of record.

Issuer Purchases of Equity Securities

On October 31, 2016, the Board of Directors of the Company approved a plan that allows for the repurchase of up to 750,000 shares of the Company’s common stock (the "Repurchase Plan") on the open market or in privately negotiated transactions, as determined by an authorized officer of the Company. Any such repurchases can be made from time to time in accordance with applicable securities laws and other requirements.

Other than pursuant to the Repurchase Plan, no purchases of common stock of the Company were made by or on behalf of the Company during the periods described below.

The table below sets forth information regarding repurchases by the Company of shares of its common stock on a monthly basis during the three month period ended December 31, 2019.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
October 1 – October 31, 2019	—	\$ —	—	325,129
November 1 – November 30, 2019	—	—	—	325,129
December 1 – December 31, 2019	—	—	—	325,129
Total	<u>—</u>	<u>\$ —</u>	<u>—</u>	

Stock Performance Graph

As a smaller reporting company, we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the information required by this Item.

Item 6. Selected Financial Data

As a smaller reporting company, we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the information required by this Item.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following is management’s discussion and analysis of the financial condition and results of operations of Atlantic American Corporation (“Atlantic American” or the “Parent”) and its subsidiaries (collectively with the Parent, the “Company”) for the years ended December 31, 2019 and 2018. This discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere herein.

Atlantic American is an insurance holding company whose operations are conducted primarily through its insurance subsidiaries: American Southern Insurance Company and American Safety Insurance Company (together known as “American Southern”) in the property and casualty insurance industry, and Bankers Fidelity Life Insurance Company and Bankers Fidelity Assurance Company (together known as “Bankers Fidelity”) in the life and health insurance industry. Each operating company is managed separately, offers different products and is evaluated on its individual performance.

Critical Accounting Policies

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and, in management’s belief, conform to general practices within the insurance industry. The following is an explanation of the Company’s accounting policies and the resultant estimates considered most significant by management. These accounting policies inherently require significant judgment and assumptions and actual operating results could differ significantly from management’s estimates determined using these policies. Atlantic American does not expect that changes in the estimates determined using these policies will have a material effect on the Company’s financial condition or liquidity, although changes could have a material effect on its consolidated results of operations.

Unpaid loss and loss adjustment expenses comprised 31% of the Company’s total liabilities at December 31, 2019. This liability includes estimates for: 1) unpaid losses on claims reported prior to December 31, 2019, 2) future development on those reported claims, 3) unpaid ultimate losses on claims incurred prior to December 31, 2019 but not yet reported and 4) unpaid loss adjustment expenses for reported and unreported claims incurred prior to December 31, 2019. Quantification of loss estimates for each of these components involves a significant degree of judgment and estimates may vary, materially, from period to period. Estimated unpaid losses on reported claims are developed based on historical experience with similar claims by the Company. Development on reported claims, estimates of unpaid ultimate losses on claims incurred prior to December 31, 2019 but not yet reported, and estimates of unpaid loss adjustment expenses are developed based on the Company’s historical experience, using actuarial methods to assist in the analysis. The Company’s actuaries develop ranges of estimated development on reported and unreported claims as well as loss adjustment expenses using various methods, including the paid-loss development method, the reported-loss development method, the paid Bornhuetter-Ferguson method and the reported Bornhuetter-Ferguson method. Any single method used to estimate ultimate losses has inherent advantages and disadvantages due to the trends and changes affecting the business environment and the Company’s administrative policies. Further, external factors, such as legislative changes, medical cost inflation, and others may directly or indirectly impact the relative adequacy of liabilities for unpaid losses and loss adjustment expenses. The Company’s approach is to select an estimate of ultimate losses based on comparing results of a variety of reserving methods, as opposed to total reliance on any single method. Unpaid loss and loss adjustment expenses are reviewed periodically for significant lines of business, and when current results differ from the original assumptions used to develop such estimates, the amount of the Company’s recorded liability for unpaid loss and loss adjustment expenses is adjusted. In the event the Company’s actual reported losses in any period are materially in excess of the previously estimated amounts, such losses, to the extent reinsurance coverage does not exist, could have a material adverse effect on the Company’s results of operations.

Future policy benefits comprised 36% of the Company’s total liabilities at December 31, 2019. These liabilities relate primarily to life insurance products and are based upon assumed future investment yields, mortality rates, and withdrawal rates after giving effect to possible risks of adverse deviation. The assumed mortality and withdrawal rates are based upon the Company’s experience. If actual results differ from the initial assumptions, the amount of the Company’s recorded liability could require adjustment.

Deferred acquisition costs comprised 10% of the Company’s total assets at December 31, 2019. Deferred acquisition costs are commissions, premium taxes, and other incremental direct costs of contract acquisition that results directly from and are essential to the contract transaction(s) and would not have been incurred by the Company had the contract transaction(s) not occurred. The deferred amounts are recorded as an asset on the balance sheet and amortized to expense in a systematic manner. Traditional life insurance and long-duration health insurance deferred policy acquisition costs are amortized over the estimated premium-paying period of the related policies using assumptions consistent with those used in computing the related liability for policy benefit reserves. Deferred acquisition costs for property and casualty insurance and short-duration health insurance are amortized over the effective period of the related insurance policies. Deferred policy acquisition costs are expensed when such costs are deemed not to be recoverable from future premiums (for traditional life and long-duration health insurance) and from the related unearned premiums and investment income (for property and casualty and short-duration health insurance). Assessments of recoverability for property and casualty and short-duration health insurance are extremely sensitive to the estimates of a subsequent year’s projected losses related to the unearned premiums. Projected loss estimates for a current block of business for which unearned premiums remain to be earned may vary significantly from the indicated losses incurred in any previous calendar year.

Receivables are amounts due from reinsurers, insureds and agents, and any sales of investment securities not yet settled, and comprised 12% of the Company's total assets at December 31, 2019. Insured and agent balances are evaluated periodically for collectibility. Annually, the Company performs an analysis of the creditworthiness of the reinsurers with whom the Company contracts using various data sources. Failure of reinsurers to meet their obligations due to insolvencies, disputes or otherwise could result in uncollectible amounts and losses to the Company. Allowances for uncollectible amounts are established, as and when a loss has been determined probable, against the related receivable. Losses are recognized by the Company when determined on a specific account basis and a general provision for loss is made based on the Company's historical experience.

Cash and investments comprised 75% of the Company's total assets at December 31, 2019. Substantially all of the Company's investments are in bonds and common and preferred stocks, the values of which are subject to significant market fluctuations. The Company carries all fixed maturities, which includes bonds and redeemable preferred stocks, and equity securities, which includes common and non-redeemable preferred stocks, as available for sale and, accordingly, at their estimated fair values. On occasion, the value of a fixed maturity investment may decline to a value below its amortized purchase price and remain at such value for an extended period of time. When a fixed maturity investment's indicated fair value has declined below its cost basis for a period of time, the Company evaluates such investment for an other than temporary impairment. The evaluation for an other than temporary impairment is a quantitative and qualitative process, which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. Potential risks and uncertainties include, among other things, changes in general economic conditions, an issuer's financial condition or near term recovery prospects and the effects of changes in interest rates. In evaluating a potential impairment, the Company considers, among other factors, management's intent and ability to hold the securities until price recovery, the nature of the investment and the expectation of prospects for the issuer and its industry, the status of an issuer's continued satisfaction of its obligations in accordance with their contractual terms, and management's expectation as to the issuer's ability and intent to continue to do so, as well as ratings actions that may affect the issuer's credit status. If an other than temporary impairment is deemed to exist, then the Company will write down the amortized cost basis of the investment to its estimated fair value. While any such write down does not impact the reported value of the investment in the Company's balance sheet, it is reflected as a realized investment loss in the Company's net income or other comprehensive income, depending upon the nature of the loss, in the period incurred.

The Company determines the fair values of certain financial instruments based on the fair value hierarchy established in Accounting Standards Codification ("ASC") 820-10-20, *Fair Value Measurements and Disclosures* ("ASC 820-10-20"). The fair values of fixed maturities and equity securities are largely determined by either independent methods prescribed by the National Association of Insurance Commissioners, which do not differ materially from nationally quoted market prices, when available, or independent broker quotations. See Note 2 and Note 3 of Notes to Consolidated Financial Statements with respect to assets and liabilities carried at fair value and information about the inputs used to value those financial instruments, by hierarchy level, in accordance with ASC 820-10-20.

Deferred income taxes reflect the effect of temporary differences between assets and liabilities that are recognized for financial reporting purposes and the amounts that are recognized for tax purposes. These deferred income taxes are measured by applying currently enacted tax laws and rates. Valuation allowances are recognized to reduce the deferred tax asset to the amount that is deemed more likely than not to be realized. In assessing the likelihood of realization, management considers estimates of future taxable income and tax planning strategies.

Share-based transactions include employee and director *share-based compensation awards*. The Company determines a grant date fair value based on the price of our publicly-traded common stock and recognize the related compensation expense, adjusted for actual forfeitures, in the consolidated statement of operations on a straight-line basis over the requisite service period for the entire award. For non-employee share-based compensation awards, the Company recognizes the impact during the period of performance, and the fair value of the award is measured as of the date performance is complete, which is the vesting date.

Refer to Note 1 of "Notes to Consolidated Financial Statements" for details regarding the Company's significant accounting policies.

Overall Corporate Results

	Year Ended December 31,	
	2019	2018
	(In thousands)	
Revenue		
Property and Casualty:		
American Southern	\$ 62,402	\$ 59,254
Life and Health:		
Bankers Fidelity	131,611	127,005
Corporate and Other	4,166	(706)
Total revenue	\$ 198,179	\$ 185,553
Income (loss) before income taxes		
Property and Casualty:		
American Southern	\$ 5,729	\$ 5,661
Life and Health:		
Bankers Fidelity	(3,646)	896
Corporate and Other	(2,490)	(7,528)
Loss before income taxes	\$ (407)	\$ (971)
Net loss	\$ (386)	\$ (704)

Management also considers and evaluates performance by analyzing the non-GAAP measure operating income or loss, and believes it is a useful metric for investors, potential investors, securities analysts and others because it isolates the “core” operating results of the Company before considering certain items that are either beyond the control of management (such as income tax expense, which is subject to timing, regulatory and rate changes depending on the timing of the associated revenues and expenses) or are not expected to regularly impact the Company’s operational results (such as any realized or unrealized investment gains or losses, which are not a part of the Company’s primary operations and are, to a limited extent, subject to discretion in terms of timing of realization).

A reconciliation of net loss to operating loss is as follows:

	Year Ended December 31,	
	2019	2018
	(In thousands)	
Reconciliation of Non-GAAP Financial Measure		
Net loss	\$ (386)	\$ (704)
Income tax benefit	(21)	(267)
Realized investment gains, net	(1,574)	(5,154)
Unrealized (gains) losses on equity securities, net	(5,511)	2,194
Non-GAAP operating loss	\$ (7,492)	\$ (3,931)

On a consolidated basis, the Company had a net loss of \$0.4 million, or \$0.04 per diluted share, in 2019, compared to net loss of \$0.7 million, or \$0.05 per diluted share, in 2018. Operating loss was \$7.5 million in 2019 as compared to \$3.9 million in 2018. The increase in operating loss was primarily due to unfavorable loss experience in the life and health operations, partially offset by favorable loss experience in the property and casualty operations.

Total revenue was \$198.2 million in 2019 as compared to \$185.6 million in 2018. Premium revenue increased to \$181.9 million in 2019 from \$172.9 million in 2018. The increase in premium revenue was primarily due to an increase in the automobile physical damage and automobile liability lines of business within the property and casualty operations. Also contributing to the increase in premium revenue was an increase in the Medicare supplement line of business in the life and health operations.

A more detailed analysis of the operating companies and other corporate activities follows.

UNDERWRITING RESULTS

American Southern

The following table summarizes, for the periods indicated, American Southern's premiums, losses, expenses and underwriting ratios:

	Year Ended December 31,	
	2019	2018
	(Dollars in thousands)	
Gross written premiums	\$ 65,848	\$ 59,485
Ceded premiums	(5,520)	(5,075)
Net written premiums	<u>\$ 60,328</u>	<u>\$ 54,410</u>
Net earned premiums	\$ 58,680	\$ 53,807
Net losses and loss adjustment expenses	39,541	38,829
Commissions and underwriting expenses	17,132	14,764
Underwriting income	<u>\$ 2,007</u>	<u>\$ 214</u>
Loss ratio	67.4%	72.2%
Expense ratio	29.2	27.4
Combined ratio	<u>96.6%</u>	<u>99.6%</u>

Gross written premiums at American Southern increased \$6.4 million, or 10.7%, during 2019 as compared to 2018. The increase in gross written premiums was primarily attributable to an increase in premiums written in the automobile physical damage and automobile liability lines of business due to increased writings from certain agencies and additional writings from a new agency relationship that began in the second half of 2018. Also contributing to the increase in gross written premiums was an increase in premiums written in the general liability line of business and rate increases on certain programs. Partially offsetting the increase in gross written premiums was a decline in premiums written in the surety line of business as a result of increased competition.

Ceded premiums increased \$0.4 million, or 8.8%, during 2019 as compared to 2018. The increase in ceded premiums was primarily due to an increase in earned premiums in certain accounts within the automobile physical damage and general liability lines of business, which are subject to reinsurance.

The following table summarizes, for the periods indicated, American Southern's net earned premiums by line of business:

	Year Ended December 31,	
	2019	2018
	(In thousands)	
Automobile liability	\$ 30,649	\$ 28,840
Automobile physical damage	15,309	11,922
General liability	3,309	2,920
Surety	6,319	7,170
Other lines	3,094	2,955
Total	<u>\$ 58,680</u>	<u>\$ 53,807</u>

Net earned premiums increased \$4.9 million, or 9.1%, during 2019 as compared to 2018. The increase in net earned premiums was primarily attributable to an increase in automobile physical damage coverage resulting from additional writings from the new agency relationship mentioned previously. Also contributing to the increase in net earned premiums was an increase in premiums earned in the automobile liability line of business due to rate increases in various programs. Premiums are earned ratably over their respective policy terms, and therefore premiums earned in the current year are related to policies written during both the current year and immediately preceding year.

The performance of an insurance company is often measured by its combined ratio. The combined ratio represents the percentage of losses, loss adjustment expenses and other expenses that are incurred for each dollar

of premium earned by the company. A combined ratio of under 100% represents an underwriting profit while a combined ratio of over 100% indicates an underwriting loss. The combined ratio is divided into two components, the loss ratio (the ratio of losses and loss adjustment expenses incurred to premiums earned) and the expense ratio (the ratio of expenses incurred to premiums earned).

Net losses and loss adjustment expenses at American Southern increased \$0.7 million, or 1.8%, during 2019 as compared to 2018. As a percentage of premiums, net losses and loss adjustment expenses were 67.4% in 2019 as compared to 72.2% in 2018. The decrease in the loss ratio was primarily due to more favorable loss experience in the automobile liability line of business as a result of additional writings in 2019 and rate increases on existing business.

Commissions and underwriting expenses increased \$2.4 million, or 16.0%, during 2019 as compared to 2018. As a percentage of premiums, these expenses were 29.2% in 2019 as compared to 27.4% in 2018. The increase in the expense ratio was primarily due to American Southern's use of a variable commission structure with certain agents, which compensates the participating agents in relation to the loss ratios of the business they write. In 2019, variable commissions at American Southern increased \$1.6 million as compared to 2018 due to improved loss ratios from certain accounts subject to variable commissions.

In establishing reserves, American Southern initially reserves for losses at the higher end of the reasonable range if no other value within the range is determined to be more probable. Selection of such an initial loss estimate is an attempt by management to give recognition that initial claims information received generally is not conclusive with respect to legal liability, is generally not comprehensive with respect to magnitude of loss and generally, based on historical experience, will develop more adversely as time passes and more information becomes available. However, as a result, American Southern generally experiences reserve redundancies when analyzing the development of prior year losses in a current period. At December 31, 2019, the range of estimates developed in connection with the loss reserves for American Southern indicated that reserves could be as much as 10.4% lower or as much as 4.0% higher. Development from prior years' reserves has historically reduced the current year loss ratio; however, such reduction in the current year loss ratio is generally offset by the reserves established in the current year for current period losses. American Southern's estimated net reserve redundancies for the years ended December 31, 2019 and 2018 were \$0.8 million and \$0.9 million, respectively. To the extent reserve redundancies vary between years, there is an incremental impact on the results of operations of American Southern and the Company. The indicated redundancy in 2019 was \$0.1 million less than in 2018. After considering the impact on contingent commissions and other related accruals, the \$0.1 million decrease in the redundancy resulted in an estimated decrease in income from operations before tax of approximately \$0.1 million in 2019 as compared to 2018. Management believes that such differences will continue in future periods but is unable to determine if or when incremental redundancies will increase or decrease, until the underlying losses are ultimately settled.

Contingent commissions, if contractually applicable, are ultimately payable to participating agents based on the underlying profitability of a particular insurance contract or a group of insurance contracts, and are periodically evaluated and accrued as earned. In 2019, approximately 44% of American Southern's earned premium provides for contractual commission arrangements which compensate the company's agents in relation to the loss ratios of the business they write, compared to 47% in 2018. By structuring its business in this manner, American Southern provides its agents with an economic incentive to place profitable business with American Southern. In periods in which loss reserves reflect favorable development from prior years' reserves, there is generally a highly correlated increase in commission expense also related to the prior year business. Accordingly, favorable loss development from prior years, while anticipated to continue in future periods, is not an indicator of significant additional profitability in the current year.

Bankers Fidelity

The following summarizes, for the periods indicated, Bankers Fidelity's premiums, losses and expenses:

	Year Ended December 31,	
	2019	2018
	(Dollars in thousands)	
Medicare supplement	\$ 179,180	\$ 164,074
Other health products	7,817	7,545
Life insurance	8,509	8,964
Gross earned premiums	195,506	180,583
Ceded premiums	(72,261)	(61,459)
Net earned premiums	123,245	119,124
Insurance benefits and losses	99,684	93,821
Commissions and underwriting expenses	35,573	32,288
Total expenses	135,257	126,109
Underwriting loss	\$ (12,012)	\$ (6,985)
Loss ratio	80.9%	78.8%
Expense ratio	28.9	27.1
Combined ratio	109.8%	105.9%

Net earned premium revenue at Bankers Fidelity increased \$4.1 million, or 3.5%, during 2019 as compared to 2018. Gross earned premiums from the Medicare supplement line of business increased \$15.1 million, or 9.2%, in 2019 as compared to 2018, due primarily to the implementation of rate increases on renewal business, as appropriate. Other health product premiums increased \$0.3 million, or 3.6%, during 2019 as compared to 2018, primarily as a result of new sales of the company's group health products. Gross earned premiums from the life insurance line of business decreased \$0.5 million, or 5.1%, in 2019 from 2018 due to the redemption and settlement of existing policy obligations exceeding the level of new sales activity. Premiums ceded increased \$10.8 million, or 17.6%, in 2019 from 2018. The increase in ceded premiums was due to an increase in Medicare supplement premiums subject to the reinsurance agreement.

Benefits and losses increased \$5.9 million, or 6.2%, during 2019 as compared to 2018. As a percentage of premiums, benefits and losses were 80.9% in 2019 as compared to 78.8% in 2018. Throughout 2018 and continuing into 2019, Bankers Fidelity experienced a higher than expected level of claims in the Medicare supplement line of business which had an unfavorable effect on the company's loss patterns and increased the resultant loss ratio.

Commissions and underwriting expenses increased \$3.3 million, or 10.2%, during 2019 as compared to 2018. As a percentage of earned premiums, these expenses were 28.9% in 2019 as compared to 27.1% in 2018. The increase in the expense ratio was primarily due to a decrease in the net amount of deferred acquisition costs ("DAC") for the years ending 2019 versus 2018. The decrease in the net change in DAC during 2019 is primarily due to a lower volume of new business sales in the Medicare supplement line of business. Also contributing to the increase in the expense ratio was an increase in expenses related to servicing the Medicare supplement line of business.

Net Investment Income and Realized Gains (Losses)

Investment income decreased \$0.6 million, or 6.0%, in 2019 as compared to 2018. The decrease in investment income was primarily attributable to a decrease in the equity in earnings from investments in real estate partnerships of \$0.4 million.

The Company had net realized investment gains of \$1.6 million in 2019 as compared to net realized investment gains of \$5.2 million in 2018. The net realized investment gains in 2019 resulted from the disposition of certain of the Company's investments in equity and fixed maturities. The net realized investment gains in 2018 were primarily attributable to gains of \$5.8 million from the sale of property held within the Company's

real estate partnership investments as well as gains from the sale of a number of the Company's investments in fixed maturities. Management continually evaluates the Company's investment portfolio and, as may be determined to be appropriate, makes adjustments for impairments and/or will divest investments. See Note 2 of Notes to Consolidated Financial Statements.

Unrealized Gains (Losses) on Equity Securities

As described in Note 1 of Notes to Consolidated Financial Statements, on January 1, 2018 the Company adopted ASU No. 2016-01, which requires, among other things, investments in equity securities to be measured at fair value at the end of the reporting period, with any changes in fair value reported in net income during the period, with certain exceptions. As a result of the adoption of ASU No. 2016-01, the Company recognized net unrealized gains on equity securities still held of \$5.5 million and unrealized losses on equity securities still held of \$2.2 million during the years ended December 31, 2019 and 2018, respectively.

Interest Expense

Interest expense increased \$0.1 million, or 4.6%, in 2019 as compared to 2018 due to an increase in the average London Interbank Offered Rate ("LIBOR") during the years ending 2019 and 2018, respectively, as the interest rates on the Company's outstanding junior subordinated deferrable interest debentures ("Junior Subordinated Debentures") are directly related to LIBOR.

Income Taxes

The primary differences between the effective tax rate and the federal statutory income tax rate for 2019 resulted from permanent differences related to meals & entertainment and vested stock grants. Also contributing to differences between the effective tax rate and the federal statutory income tax rate was the Dividends Received Deduction ("DRD"). The current estimated DRD is adjusted as underlying factors change and can vary from estimates based on, but not limited to, actual distributions from investments as well as the amount of the Company's taxable income.

The primary differences between the effective tax rate and the federal statutory income tax rate for 2018 resulted from provision-to-filed return adjustments that are generally updated at the completion of the third quarter of each fiscal year and were \$0.1 million in the year ended December 31, 2018.

Liquidity and Capital Resources

The primary cash needs of the Company are for the payment of claims and operating expenses, maintaining adequate statutory capital and surplus levels, and meeting debt service requirements. Current and expected patterns of claim frequency and severity may change from period to period but generally are expected to continue within historical ranges. The Company's primary sources of cash are written premiums, investment income and proceeds from the sale and maturity of its invested assets. The Company believes that, within each operating company, total invested assets will be sufficient to satisfy all policy liabilities and that cash inflows from investment earnings, future premium receipts and reinsurance collections will be adequate to fund the payment of claims and expenses as needed.

Cash flows at the Parent are derived from dividends, management fees, and tax-sharing payments, as described below, from the subsidiaries. The principal cash needs of the Parent are for the payment of operating expenses, the acquisition of capital assets and debt service requirements, as well as the repurchase of shares and payments of any dividends as may be authorized and approved by the Company's board of directors from time to time. At December 31, 2019, the Parent had approximately \$5.3 million of unrestricted cash and investments.

Dividend payments to a parent corporation by its wholly owned insurance subsidiaries are subject to annual limitations and are restricted to 10% of statutory surplus or statutory earnings before recognizing realized investment gains of the individual insurance subsidiaries. At December 31, 2019, the Parent's insurance subsidiaries had an aggregate statutory surplus of \$81.4 million. Dividends were paid to Atlantic American by its subsidiaries totaling \$4.8 million in each of the years ended in 2019 and 2018.

The Parent provides certain administrative, purchasing and other services to each of its subsidiaries. The amount charged to and paid by the subsidiaries for these services was \$7.2 million and \$8.0 million in 2019

and 2018, respectively. In addition, the Parent has a formal tax-sharing agreement with each of its insurance subsidiaries. A net total of \$3.3 million and \$3.4 million were paid to the Parent under the tax sharing agreement in 2019 and 2018, respectively.

The Company has two statutory trusts which exist for the exclusive purpose of issuing trust preferred securities representing undivided beneficial interests in the assets of the trusts and investing the gross proceeds of the trust preferred securities in Junior Subordinated Debentures. The outstanding \$18.0 million and \$15.7 million of Junior Subordinated Debentures mature on December 4, 2032 and May 15, 2033, respectively, are callable quarterly, in whole or in part, only at the option of the Company, and have an interest rate of three-month LIBOR plus an applicable margin. The margin ranges from 4.00% to 4.10%. At December 31, 2019, the effective interest rate was 5.96%. The obligations of the Company with respect to the issuances of the trust preferred securities represent a full and unconditional guarantee by the Parent of each trust's obligations with respect to the trust preferred securities. Subject to certain exceptions and limitations, the Company may elect from time to time to defer Junior Subordinated Debenture interest payments, which would result in a deferral of distribution payments on the related trust preferred securities. The Company has not made such an election.

The Company intends to pay its obligations under the Junior Subordinated Debentures using existing cash balances, dividend and tax-sharing payments from the operating subsidiaries, or from potential future financing arrangements.

At December 31, 2019, the Company had 55,000 shares of Series D preferred stock ("Series D Preferred Stock") outstanding. All of the shares of Series D Preferred Stock are held by an affiliate of the Company's controlling shareholder. The outstanding shares of Series D Preferred Stock have a redemption value of \$100 per share; accrue annual dividends at a rate of \$7.25 per share (payable in cash or shares of the Company's common stock at the option of the board of directors of the Company) and are cumulative. In certain circumstances, the shares of the Series D Preferred Stock may be convertible into an aggregate of approximately 1,378,000 shares of the Company's common stock, subject to certain adjustments and provided that such adjustments do not result in the Company issuing more than approximately 2,703,000 shares of common stock without obtaining prior shareholder approval; and are redeemable solely at the Company's option. The Series D Preferred Stock is not currently convertible. The Company had accrued, but unpaid, dividends, on the Series D Preferred Stock of \$17,722 at December 31, 2019 and 2018. During each of 2019 and 2018, the Company paid Series D Preferred Stock dividends of \$0.4 million.

Cash and cash equivalents increased from \$12.6 million at December 31, 2018 to \$12.9 million at December 31, 2019. The increase in cash and cash equivalents during 2019 was primarily attributable to \$3.1 million of net investment sales and maturity of securities exceeding purchases of securities. Partially offsetting the increase in cash and cash equivalents was the net cash used operations of \$1.8 million during 2019. Also partially offsetting the increase were dividends paid on the Company's common stock and Series D Preferred Stock of \$0.8 million, and the net acquisition of treasury stock for \$0.2 million.

The Company believes that existing cash balances as well as the dividends, fees, and tax-sharing payments it expects to receive from its subsidiaries and, if needed, additional borrowings from financial institutions, will enable the Company to meet its liquidity requirements for the foreseeable future. Management is not aware of any current recommendations by regulatory authorities, which, if implemented, would have a material adverse effect on the Company's liquidity, capital resources or operations.

Coronavirus Disease 2019

On January 30, 2020, the World Health Organization declared that the recent coronavirus disease 2019 ("COVID-19") outbreak was a global health emergency. On March 11, 2020, the World Health Organization raised the COVID-19 outbreak to "pandemic" status. The spread of COVID-19 may negatively impact the Company's business, investments and results of operations. See Note 17 of Notes to Consolidated Financial Statements for more information.

New Accounting Pronouncements

See "Recently Issued Accounting Standards" in Note 1 of Notes to Consolidated Financial Statements.

Impact of Inflation

Insurance premiums are established before the amount of losses and loss adjustment expenses, or the extent to which inflation may affect such losses and expenses, are known. Consequently, the Company attempts, in establishing its premiums, to anticipate the potential impact of inflation. If, for competitive reasons, premiums cannot be increased to anticipate inflation, this cost would be absorbed by the Company. Inflation also affects the rate of investment return on the Company's investment portfolio with a corresponding effect on investment income. To date, inflation has not had a material effect on the Company's results of operations in any of the periods presented.

Off-Balance Sheet Arrangements

In the normal course of business, the Company has structured borrowings that, in accordance with accounting principles generally accepted in the United States of America, are recorded on the Company's balance sheet at an amount that differs from the ultimate contractual obligation. See Note 8 of Notes to Consolidated Financial Statements.

Contractual Obligations

As a smaller reporting company, we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the table of contractual obligations required by this Item.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the information required by this Item.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Atlantic American Corporation
Atlanta, Georgia

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Atlantic American Corporation (the “Company”) and subsidiaries as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income (loss), shareholders’ equity and cash flows for each of the two years in the period ended December 31, 2019 and the related notes and schedules (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

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 audit. We are a public accounting firm registered with the Public Accounting Oversight Board (United States) (“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 the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit 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 audit 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 audit provides a reasonable basis for our opinion.

/s/ Dixon Hughes Goodman LLP

We have served as the Company’s auditor since 2018.

Atlanta, Georgia
March 24, 2020

ATLANTIC AMERICAN CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2019	2018
	(Dollars in thousands, except share data)	
ASSETS		
Cash and cash equivalents	\$ 12,893	\$ 12,630
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost: \$219,233 and \$219,924)	232,472	210,386
Equity securities, at fair value (cost: \$7,168 and \$10,515)	22,922	20,758
Other invested assets (cost: \$9,908 and \$6,905)	9,960	7,424
Policy loans	2,007	2,085
Real estate	38	38
Investment in unconsolidated trusts	1,238	1,238
Total investments	268,637	241,929
Receivables:		
Reinsurance	32,135	26,110
Insurance premiums and other, net of allowance for doubtful accounts of \$183 and \$207 as of 2019 and 2018, respectively	13,134	15,223
Deferred income taxes, net	314	4,184
Deferred acquisition costs	38,861	37,094
Other assets	9,108	4,560
Intangibles	2,544	2,544
Total assets	\$ 377,626	\$ 344,274
LIABILITIES AND SHAREHOLDERS' EQUITY		
Insurance reserves and policyholder funds		
Future policy benefits	\$ 92,490	\$ 90,257
Unearned premiums	26,035	24,206
Losses and claims	81,448	72,612
Other policy liabilities	1,933	1,973
Total insurance reserves and policyholder funds	201,906	189,048
Accounts payable and accrued expenses	23,588	20,116
Junior subordinated debenture obligations, net	33,738	33,738
Total liabilities	259,232	242,902
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock, \$1 par, 4,000,000 shares authorized; Series D preferred, 55,000 shares issued and outstanding; \$5,500 redemption value	55	55
Common stock, \$1 par, 50,000,000 shares authorized; 22,400,894 shares issued; 20,472,162 and 20,170,360 shares outstanding as of 2019 and 2018, respectively	22,401	22,401
Additional paid-in capital	57,820	57,414
Retained earnings	36,020	37,208
Accumulated other comprehensive income (loss)	10,459	(7,535)
Unearned stock grant compensation	(781)	(186)
Treasury stock, at cost, 1,928,732 and 2,230,534 shares as of 2019 and 2018, respectively	(7,580)	(7,985)
Total shareholders' equity	118,394	101,372
Total liabilities and shareholders' equity	\$ 377,626	\$ 344,274

See the accompanying notes to the consolidated financial statements.

ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2019	2018
	(Dollars in thousands, except per share data)	
Revenue:		
Insurance premiums, net	\$ 181,925	\$ 172,931
Net investment income	8,979	9,549
Realized investment gains, net	1,574	5,154
Unrealized gains (losses) on equity securities, net	5,511	(2,194)
Other income	190	113
Total revenue	<u>198,179</u>	<u>185,553</u>
Benefits and expenses:		
Insurance benefits and losses incurred	139,225	132,650
Commissions and underwriting expenses	45,477	39,042
Interest expense	2,130	2,037
Other expense	11,754	12,795
Total benefits and expenses	<u>198,586</u>	<u>186,524</u>
Loss before income taxes	(407)	(971)
Income tax benefit	(21)	(267)
Net loss	(386)	(704)
Preferred stock dividends	(399)	(399)
Net loss applicable to common shareholders	<u>\$ (785)</u>	<u>\$ (1,103)</u>
Loss per common share (basic and diluted)	<u>\$ (.04)</u>	<u>\$ (.05)</u>

See the accompanying notes to the consolidated financial statements.

ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,	
	2019	2018
	(Dollars in thousands)	
Net loss	\$ (386)	\$ (704)
Other comprehensive income (loss):		
<u>Available-for-sale fixed maturity securities:</u>		
Gross unrealized holding gain (loss) arising in the period	23,130	(13,047)
Related income tax effect	(4,857)	2,739
Subtotal	18,273	(10,308)
Gross OTTI losses charged to realized gains	—	1,525
Related income tax effect	—	(320)
Subtotal	—	1,205
Less: reclassification adjustment for net realized gains included in net loss	(353)	(580)
Related income tax effect	74	122
Subtotal	(279)	(458)
Total other comprehensive income (loss), net of tax	17,994	(9,561)
Total comprehensive income (loss)	\$ 17,608	\$ (10,265)

See the accompanying notes to the consolidated financial statements.

ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	(Dollars in thousands, except per share data)	Year Ended December 31,	
		2019	2018
Preferred stock:			
Balance, beginning of year		\$ 55	\$ 55
Balance, end of year		55	55
Common stock:			
Balance, beginning of year		22,401	22,401
Balance, end of year		22,401	22,401
Additional paid-in capital:			
Balance, beginning of year		57,414	57,495
Restricted stock grants, net of forfeitures		396	(96)
Issuance of shares under stock plans		10	15
Balance, end of year		57,820	57,414
Retained earnings:			
Balance, beginning of year		37,208	30,993
Cumulative effect of adoption of updated accounting guidance for equity financial instruments at January 1, 2018		—	9,825
Reclassification of certain tax effects from accumulated other comprehensive income at January 1, 2018		—	(2,100)
Net loss		(386)	(704)
Dividends on common stock		(403)	(407)
Dividends accrued on preferred stock		(399)	(399)
Balance, end of year		36,020	37,208
Accumulated other comprehensive income (loss):			
Balance, beginning of year		(7,535)	9,751
Cumulative effect of adoption of updated accounting guidance for equity financial instruments at January 1, 2018		—	(9,825)
Reclassification of certain tax effects from accumulated other comprehensive income at January 1, 2018		—	2,100
Other comprehensive income (loss), net of tax		17,994	(9,561)
Balance, end of year		10,459	(7,535)
Unearned Stock Grant Compensation:			
Balance, beginning of year		(186)	(579)
Restricted stock grants, net of forfeitures		(948)	149
Amortization of unearned compensation		353	244
Balance, end of year		(781)	(186)
Treasury Stock:			
Balance, beginning of year		(7,985)	(7,133)
Restricted stock grants, net of forfeitures		552	(53)
Purchase of 26,210 and 193,103 shares, as of 2019 and 2018, respectively, for treasury		(71)	(597)
Net shares acquired related to employee share-based compensation plans		(92)	(223)
Issuance of shares under stock plans		16	21
Balance, end of year		(7,580)	(7,985)
Total shareholders' equity		\$ 118,394	\$ 101,372
Dividends declared on common stock per share		\$ (.02)	\$ (.02)

See the accompanying notes to the consolidated financial statements.

ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>(Dollars in thousands)</u>	
Cash flows from operating activities:		
Net loss	\$ (386)	\$ (704)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Amortization of deferred acquisition costs	17,288	17,611
Acquisition costs deferred	(19,055)	(22,011)
Realized investment gains, net	(1,574)	(5,154)
Unrealized (gains) losses on equity securities, net	(5,511)	2,194
Distributions received from equity method investees	379	10,777
Compensation expense related to share awards	353	244
Depreciation and amortization	996	987
Deferred income tax benefit	(913)	(2,236)
Increase in receivables, net	(4,709)	(10,221)
Increase in insurance reserves and policyholder funds	12,858	15,465
Increase (decrease) in accounts payable and accrued expenses	3,472	(2,226)
Other, net	(5,005)	(266)
Net cash (used in) provided by operating activities	<u>(1,807)</u>	<u>4,460</u>
Cash flows from investing activities:		
Proceeds from investments sold	120,950	30,140
Proceeds from investments matured, called or redeemed	6,157	4,906
Investments purchased	(124,029)	(49,552)
Additions to property and equipment	(69)	(281)
Net cash provided by (used in) investing activities	<u>3,009</u>	<u>(14,787)</u>
Cash flows from financing activities:		
Payment of dividends on Series D preferred stock	(399)	(399)
Payment of dividends on common stock	(403)	(407)
Proceeds from shares issued under stock plans	26	36
Treasury stock acquired — share repurchase authorization	(71)	(597)
Treasury stock acquired — net employee share-based compensation	(92)	(223)
Net cash used in financing activities	<u>(939)</u>	<u>(1,590)</u>
Net increase (decrease) in cash	263	(11,917)
Cash and cash equivalents at beginning of year	12,630	24,547
Cash and cash equivalents at end of year	<u>\$ 12,893</u>	<u>\$ 12,630</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 2,155</u>	<u>\$ 1,996</u>
Cash paid for income taxes	<u>\$ 1,662</u>	<u>\$ 2,107</u>

See the accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") which, for insurance companies, differ in some respects from the statutory accounting practices prescribed or permitted by regulatory authorities. These financial statements include the accounts of Atlantic American Corporation ("Atlantic American" or the "Parent") and its subsidiaries (collectively with the Parent, the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation. Operating results achieved in any historical period are not necessarily indicative of results to be expected in any future period.

At December 31, 2019, the Parent owned four insurance subsidiaries, Bankers Fidelity Life Insurance Company and its wholly-owned subsidiary, Bankers Fidelity Assurance Company (together known as "Bankers Fidelity"), and American Southern Insurance Company and its wholly-owned subsidiary, American Safety Insurance Company (together known as "American Southern"), in addition to one non-insurance subsidiary, xCalibre Risk Services, Inc. The Parent has issued a guarantee of all liabilities of Bankers Fidelity.

Premium Revenue and Cost Recognition

Life insurance premiums are recognized as revenue when due; accident and health insurance premiums are recognized as revenue over the premium paying period and property and casualty insurance premiums are recognized as revenue over the period of the contract in proportion to the amount of insurance protection provided. Losses, benefits and expenses are accrued as incurred and are associated with premiums as they are earned so as to result in recognition of profits over the lives of the contracts. For traditional life insurance and long-duration health insurance, this association is accomplished by the provision of a future policy benefits reserve and the deferral and subsequent amortization of the costs of acquiring business, which are referred to as "deferred policy acquisition costs" (principally commissions, premium taxes, and other incremental direct costs of issuing policies). Deferred policy acquisition costs ("DAC") are amortized over the estimated premium-paying period of the related policies using assumptions consistent with those used in computing the policy benefits reserve. The Company provides for insurance benefits and losses on accident, health, and property-casualty claims based upon estimates of projected ultimate losses. DAC for property and casualty insurance and short-duration health insurance is amortized over the effective period of the related insurance policies. Contingent commissions, if contractually applicable, are ultimately payable to agents based on the underlying profitability of a particular insurance contract or a group of insurance contracts, and are periodically evaluated and accrued as earned. In periods in which revisions are made to the estimated loss reserves related to the particular insurance contract or group of insurance contracts subject to such commissions, corresponding adjustments are also made to the related accruals. DAC is expensed when such costs are deemed not to be recoverable from future premiums (for traditional life and long-duration health insurance) and from the related unearned premiums and investment income (for property and casualty and short-duration health insurance).

Intangibles

Intangibles consist of goodwill and other indefinite-lived intangible assets. Goodwill represents the excess of cost over the fair value of net assets acquired and is not amortized. Other indefinite-lived intangibles represent the value of licenses and are not amortized. The Company periodically reviews its goodwill and other indefinite-lived intangibles to determine if any adverse conditions exist that could indicate impairment. Conditions that could trigger impairment include, but are not limited to, a significant change in business climate that could affect the value of the related asset, an adverse action, or an assessment by a regulator. No impairment of the Company's recorded intangibles was identified during any of the periods presented.

Investments

The Company's investments in fixed maturities, which include bonds and redeemable preferred stocks, are classified as "available-for-sale" and, accordingly, are carried at fair value with the after-tax difference from amortized cost, as adjusted if applicable, reflected in shareholders' equity as a component of accumulated other

comprehensive income or loss. Effective January 1, 2018, upon adoption of new accounting guidance, the Company's equity securities, which include common and non-redeemable preferred stocks, are carried at fair value with changes in fair value reported in net income. Prior to January 1, 2018, changes in fair value were reported in other comprehensive income. The fair values of fixed maturities and equity securities are largely determined by either independent methods prescribed by the NAIC, which do not differ materially from publicly quoted market prices, when available, or independent broker quotations. As of December 31, 2018, the Company owned certain fixed maturities in the amount of \$1,066, with valuations that were derived from techniques in which one or more of the significant inputs are unobservable. As of December 31, 2019, all fixed maturities were valued using publicly quoted market prices or techniques with observable inputs. Values that are not determined using quoted market prices inherently involve a greater degree of judgment and uncertainty and therefore ultimately greater price volatility than the value of securities with publicly quoted market prices. Policy loans are carried at unpaid principal balance and real estate is carried at historical cost. Other invested assets are comprised of investments in limited partnerships, limited liability companies, and real estate joint ventures, and are accounted for using the equity method. If the value of a fixed maturity security or other invested asset declines below its cost or amortized cost, as applicable, and the decline is considered to be other than temporary, a realized loss is recorded to reduce the carrying value of the investment to its estimated fair value, which becomes the new cost basis.

Premiums and discounts related to investments are amortized or accreted over the life of the related investment as an adjustment to yield using the effective interest method. Dividends and interest income are recognized when earned or declared. The cost of securities sold is based on specific identification. Unrealized gains (losses) in the value of fixed maturities are accounted for as a direct increase (decrease) in accumulated other comprehensive income in shareholders' equity, net of deferred tax and, accordingly, have no effect on net income.

Income Taxes

Deferred income taxes represent the expected future tax consequences when the reported amounts of assets and liabilities are recovered or paid. They arise from differences between the financial reporting and tax basis of assets and liabilities and are adjusted for changes in tax laws and tax rates as those changes are enacted. The provision for income taxes represents the total amount of income taxes due related to the current year, plus the change in deferred income taxes during the year. A valuation allowance is recognized if, based on management's assessment of the relevant facts, it is more likely than not that some portion of a deferred tax asset will not be realized.

Earnings Per Common Share

Basic earnings per common share are based on the weighted average number of common and participating shares outstanding during the relevant period. Diluted earnings per common share are based on the weighted average number of common and participating shares outstanding during the relevant period, plus options outstanding, if applicable, using the treasury stock method and the assumed conversion of the Series D preferred stock, if dilutive. Unless otherwise indicated, earnings per common share amounts are presented on a diluted basis.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and investments in short-term, highly liquid securities with original maturities of three months or less from date of purchase.

Reinsurance

The Company enters into reinsurance agreements with other companies in the normal course of business. For each reinsurance agreement, the Company determines if the agreement provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. Reinsurance premiums and benefits paid or provided are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums, benefits and DAC are reported net of insurance ceded.

Share-Based Transactions

For employee and director share-based compensation awards, the Company determines a grant date fair value based on the price of our publicly-traded common stock and recognize the related compensation expense, adjusted for actual forfeitures, in the consolidated statement of operations on a straight-line basis over the requisite service period for the entire award. For non-employee share-based compensation awards, the Company recognizes the impact during the period of performance, and the fair value of the award is measured as of the date performance is complete, which is the vesting date.

Treasury Stock

Treasury stock is reflected as a reduction of shareholders' equity at cost. The Company uses the first-in-first-out ("FIFO") purchase cost to determine the cost of treasury stock that is reissued. The Company includes any gains and losses in additional paid-in capital when treasury stock is reissued.

Immaterial Error Correction

During the year ended December 31, 2019, the Company corrected a prior period immaterial error to the consolidated statement of comprehensive income (loss) for the year ended December 31, 2018. The correction resulted in an increase to gross unrealized holding loss arising during 2018 of \$6,099 before taxes (\$4,818 after taxes), with an offsetting decrease to the reclassification adjustment for net realized gains of \$6,099 before taxes (\$4,818 after taxes). The correction had no impact to shareholders' equity, net loss, total other comprehensive loss, total comprehensive loss, or cash flows.

Recently Issued Accounting Standards

Adoption of New Accounting Standards

Reclassification of Effect of Tax Rate Change from AOCI to Retained Earnings. In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("ASU 2018-02"). The FASB issued this guidance for the effect on deferred tax assets and liabilities related to items recorded in accumulated other comprehensive income ("AOCI") resulting from legislated tax reform enacted on December 22, 2017. The tax reform reduced the federal tax rate applied to the Company's deferred tax balances from 35% to 21% on enactment. The Company recorded the total effect of the change in enacted tax rates on deferred tax balances in the income tax expense component of net income. ASU 2018-02 permits the Company to reclassify out of AOCI and into retained earnings the "stranded" tax effects that resulted from recording the tax effects of unrealized investment gains at a 35% tax rate because the 14% reduction in tax rate was recognized in net income instead of other comprehensive income. The Company adopted ASU 2018-02 as of January 1, 2018. As a result, on January 1, 2018, the Company reclassified \$2,100 of stranded tax effects related to continuing operations which increased AOCI and reduced retained earnings.

Classification of Certain Cash Receipts and Cash Payments. In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The issues addressed in ASU 2016-15 are: 1) debt prepayment or debt extinguishment costs, 2) settlement of zero-coupon debt instruments, 3) contingent consideration payments made after a business combination, 4) proceeds from the settlement of insurance claims, 5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, 6) distributions received from equity method investees, 7) beneficial interests in securitization transactions and 8) separately identifiable cash flows and application of the predominance principle. The Company adopted ASU 2016-15 as of January 1, 2018, which impacted the classification of distributions from equity method investees. The Company made the election to use the nature of distributions approach. For the years ended December 31, 2019 and 2018, the Company classified distributions from equity method investees of \$379 and \$10,777, respectively, as cash flows from operating activities.

Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities. In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10)

(“ASU 2016-01”). ASU 2016-01 provides updated guidance for the recognition and measurement of financial instruments. The guidance requires investments in equity securities to be measured at fair value with any changes in valuation reported in net income except for investments that are consolidated or are accounted for under the equity method of accounting. The guidance also requires a deferred tax asset resulting from net unrealized losses on available-for-sale (“AFS”) fixed maturities that are recognized in AOCI to be evaluated for recoverability in combination with the Company’s other deferred tax assets. Under previous guidance, the Company measured investments in equity securities at fair value with any changes in fair value reported in other comprehensive income. The Company adopted ASU 2016-01 as of January 1, 2018. The adoption of this guidance resulted in the recognition of \$9,825 of net after tax unrealized gains on equity securities as a cumulative effect adjustment that increased retained earnings as of January 1, 2018 and decreased AOCI by the same amount. The Company elected to report changes in the fair value of equity securities in a separate line item on the Company’s consolidated statements of operations. At December 31, 2017, equity securities were classified as AFS in the Company’s consolidated balance sheets. However, upon adoption, the updated guidance eliminated the AFS balance sheet classification for equity securities.

Leases. On January 1, 2019, the Company adopted the requirements of Accounting Standards Update (“ASU”) No. 2016-02, Leases (Topic 842). The objective of this ASU, along with several related ASUs issued subsequently, is to increase transparency and comparability between organizations that enter into lease agreements. For lessees, the key difference of the new standard from the previous guidance (Topic 840) is the recognition of a right-of-use (“ROU”) asset and lease liability on the balance sheet. The most significant change is the requirement to recognize ROU assets and lease liabilities for leases classified as operating leases. The new standard requires disclosures to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

As part of the transition to the new standard, the Company was required to measure and recognize leases that existed at January 1, 2019 and elected to use a modified retrospective approach. For leases that existed at the effective date, the Company elected the package of three transition practical expedients and therefore did not reassess any of the following: (i) whether an arrangement is or contains a lease, (ii) lease classification, or (iii) what qualifies as an initial direct cost.

The adoption of this ASU resulted in the Company recognizing a ROU asset of \$6,088 as part of other assets and a lease liability of \$6,088 as part of accounts payable and accrued expenses in the consolidated balance sheet. The adoption of this ASU did not have a material effect on the Company’s results of operations or liquidity.

Revenue from Contracts with Customers. In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”). ASU 2014-09, as modified, provides guidance for recognizing revenue which excludes insurance contracts and financial instruments. Revenue is to be recognized when, or as, goods or services are transferred to customers in an amount that reflects the consideration that an entity is expected to be entitled in exchange for those goods or services. The Company adopted ASU No. 2014-09 as of January 1, 2018. For the year ended December 31, 2019, approximately \$190, or approximately one-tenth of 1% of the Company’s total revenues, were within the scope of this updated guidance. The adoption of this ASU did not have an impact on the Company’s consolidated financial statements.

Future Adoption of New Accounting Standards

Income Taxes – Simplifying the Accounting for Income Taxes. In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (“ASU 2019-12”). This updated guidance is intended to simplify the accounting for income taxes by removing several exceptions contained in existing guidance and amending other existing guidance to simplify several other income tax accounting matters. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2020, although earlier adoption is permitted. The Company expects to adopt the updated guidance January 1, 2021, and does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

Fair Value Measurement – Changes to the Disclosure Requirements for Fair Value Measurement. In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”). This guidance removes the following disclosure requirements from Topic 820: (1) the amount of and reasons for transfers

between Level 1 and Level 2 of the fair value hierarchy, (2) the policy for timing of transfers between levels, and (3) the valuation processes for Level 3 fair value measurements. This disclosure also includes the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019. The Company expects to adopt the updated guidance January 1, 2020, and does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

Accounting for Long-Duration Contracts. In August 2018, the FASB issued ASU No. 2018-12, Financial Services — Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts (“ASU 2018-12”). This guidance (1) improves the timeliness of recognizing changes in the liability for future policy benefits and modifies the rate used to discount future cash flows, (2) simplifies and improves the accounting for certain market-based options or guarantees associated with deposit (or account balance) contracts, (3) simplifies the amortization of deferred acquisition costs, and (4) improves the effectiveness of the required disclosures. ASU 2018-12 is effective for interim and annual reporting periods beginning after December 15, 2023, although earlier adoption is permitted. The Company has not yet determined the method or timing for adoption or estimated the impact on the Company’s consolidated financial statements.

Goodwill. In January 2017, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (“ASU 2017-04”). ASU 2017-04 is intended to simplify the evaluation of goodwill. The updated guidance requires recognition and measurement of goodwill impairment based on the excess of the carrying value of the reporting unit compared to its estimated fair value, with the amount of the impairment not to exceed the carrying value of the reporting unit’s goodwill. Under existing guidance, if the reporting unit’s carrying value exceeds its estimated fair value, the Company allocates the fair value of the reporting unit to all of the assets and liabilities of the reporting unit to determine an implied goodwill value. An impairment loss is then recognized for the excess, if any, of the carrying value of the reporting unit’s goodwill compared to the implied goodwill value. The amendments in ASU 2017-04 are effective for interim and annual reporting periods beginning after December 15, 2019. The Company expects to adopt the updated guidance January 1, 2020 on a prospective basis as required. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

Financial Instruments – Credit Losses. In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 requires entities to measure all expected credit losses for financial instruments (including reinsurance recoverable and policy loans) held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Under current GAAP, entities generally recognize credit losses when it is probable that the loss has been incurred. ASU 2016-13 will remove all recognition thresholds and will require entities to recognize an allowance for credit losses equal to the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the entity expects to collect over the instrument’s contractual life. ASU 2016-13 also amends the credit loss measurement guidance for AFS debt securities and beneficial interests in securitized financial assets. Credit losses on AFS debt securities carried at fair value will continue to be measured as OTTI when incurred; however, the losses will be recognized through an allowance and no longer as an adjustment to the cost basis. Recoveries of OTTI will be recognized as reversals of valuation allowances and no longer accreted as investment income through an adjustment to the investment yield. The allowance on AFS debt securities cannot cause the net carrying value to be below fair value and, therefore, it is possible that increases in fair value due to decreases in market interest rates could cause the reversal of a valuation allowance and increase net income. The new guidance will also require purchased financial assets with a more-than-insignificant amount of credit deterioration since original issuance to be recorded based on contractual amounts due and an initial allowance recorded at the date of purchase. For the Company, the amendments in ASU 2016-13 will be effective for interim and annual reporting periods beginning after December 15, 2022. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company has not yet determined the timing of adoption. Implementation matters yet to be addressed include determining the impact of valuation allowances on the effective interest method for recognizing interest income from AFS debt securities as well as updating our

investment accounting system functionality to adjust valuation allowances based on changes in fair value. The estimated effect on the Company's consolidated financial statements can only be estimated based on the current investment portfolio at any given point in time, and accordingly, has not currently been determined.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Significant estimates and assumptions are used in developing and evaluating deferred income taxes, deferred acquisition costs, insurance reserves, investments, and receivables, among others, and actual results could differ materially from management's estimates.

Note 2. Investments

The following tables set forth the estimated fair value, gross unrealized gains, gross unrealized losses and cost or amortized cost of the Company's investments in fixed maturities and equity securities, aggregated by type and industry, as of December 31, 2019 and December 31, 2018.

Fixed maturities were comprised of the following:

	2019			
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Fixed maturities:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 20,259	\$ 467	\$ 53	\$ 19,845
Obligations of states and political subdivisions	11,940	371	53	11,622
Corporate securities:				
Utilities and telecom	26,648	2,404	32	24,276
Financial services	73,917	4,249	57	69,725
Other business – diversified	41,706	2,335	98	39,469
Other consumer – diversified	57,752	3,702	54	54,104
Total corporate securities	200,023	12,690	241	187,574
Redeemable preferred stocks:				
Other consumer – diversified	250	58	—	192
Total redeemable preferred stocks	250	58	—	192
Total fixed maturities	<u>\$ 232,472</u>	<u>\$ 13,586</u>	<u>\$ 347</u>	<u>\$ 219,233</u>
	2018			
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Fixed maturities:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 27,422	\$ 36	\$ 1,061	\$ 28,447
Obligations of states and political subdivisions	8,364	347	72	8,089
Corporate securities:				
Utilities and telecom	19,642	873	431	19,200
Financial services	49,477	747	2,942	51,672
Other business – diversified	49,196	226	2,844	51,814
Other consumer – diversified	56,093	84	4,501	60,510
Total corporate securities	174,408	1,930	10,718	183,196

	2018			
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Redeemable preferred stocks:				
Other consumer – diversified	192	—	—	192
Total redeemable preferred stocks	192	—	—	192
Total fixed maturities	<u>\$ 210,386</u>	<u>\$ 2,313</u>	<u>\$ 11,851</u>	<u>\$ 219,924</u>

Bonds having an amortized cost of \$10,669 and \$10,452 and included in the tables above were on deposit with insurance regulatory authorities at December 31, 2019 and 2018, respectively, in accordance with statutory requirements.

	2019			
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost or Amortized Cost
Equity securities:				
Common and non-redeemable preferred stocks:				
Financial services	3,159	624	—	2,535
Other business – diversified	19,763	15,130	—	4,633
Total equity securities	<u>\$ 22,922</u>	<u>\$ 15,754</u>	<u>\$ —</u>	<u>\$ 7,168</u>

	2018			
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost or Amortized Cost
Equity securities:				
Common and non-redeemable preferred stocks:				
Utilities and telecom	1,686	722	—	964
Financial services	4,552	172	—	4,380
Other business – diversified	306	259	—	47
Other consumer – diversified	14,214	9,090	—	5,124
Total equity securities	<u>\$ 20,758</u>	<u>\$ 10,243</u>	<u>\$ —</u>	<u>\$ 10,515</u>

The carrying value and amortized cost of the Company's investments in fixed maturities at December 31, 2019 and 2018 by contractual maturity were as follows. Actual maturities may differ from contractual maturities because issuers may call or prepay obligations with or without call or prepayment penalties.

	2019		2018	
	Carrying Value	Amortized Cost	Carrying Value	Amortized Cost
Due in one year or less	\$ —	\$ —	\$ 3,150	\$ 3,150
Due after one year through five years	14,664	14,280	19,787	19,699
Due after five years through ten years	77,934	73,521	127,617	133,863
Due after ten years	130,680	122,313	43,823	46,338
Asset backed securities	9,194	9,111	16,009	16,874
Totals	<u>\$ 232,472</u>	<u>\$ 219,233</u>	<u>\$ 210,386</u>	<u>\$ 219,924</u>

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The following tables present the Company's unrealized loss aging for securities by type and length of time the security was in a continuous unrealized loss position as of December 31, 2019 and 2018.

	2019					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 3,432	\$ 22	\$ 3,533	\$ 31	\$ 6,965	\$ 53
Obligations of states and political subdivisions	3,106	53	—	—	3,106	53
Corporate securities	23,245	145	2,504	96	25,749	241
Total temporarily impaired securities	<u>\$ 29,783</u>	<u>\$ 220</u>	<u>\$ 6,037</u>	<u>\$ 127</u>	<u>\$ 35,820</u>	<u>\$ 347</u>
	2018					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ —	\$ —	\$ 24,786	\$ 1,061	\$ 24,786	\$ 1,061
Obligations of states and political subdivisions	—	—	3,980	72	3,980	72
Corporate securities	49,633	1,592	97,012	9,126	146,645	10,718
Total temporarily impaired securities	<u>\$ 49,633</u>	<u>\$ 1,592</u>	<u>\$ 125,778</u>	<u>\$ 10,259</u>	<u>\$ 175,411</u>	<u>\$ 11,851</u>

The evaluation for an other than temporary impairment is a quantitative and qualitative process, which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. Potential risks and uncertainties include, among other things, changes in general economic conditions, an issuer's financial condition or near term recovery prospects and the effects of changes in interest rates. In evaluating a potential impairment, the Company considers, among other factors, management's intent and ability to hold the securities until price recovery, the nature of the investment and the expectation of prospects for the issuer and its industry, the status of an issuer's continued satisfaction of its obligations in accordance with their contractual terms, and management's expectation as to the issuer's ability and intent to continue to do so, as well as ratings actions that may affect the issuer's credit status.

There were no OTTI charges recorded during the year ended December 31, 2019. During the year ended December 31, 2018, the Company recorded OTTI charges related to certain fixed maturity securities of \$1,525 as a charge to net income due to management's intention to sell such securities.

As of December 31, 2019 and 2018, there were thirty and one hundred forty securities, respectively, in an unrealized loss position which primarily included certain of the Company's investments in fixed maturities within the financial services, other diversified business and other diversified consumer sectors. The decrease in the number and value of securities in an unrealized loss position during the year ended December 31, 2019, was primarily attributable to the appreciation of fixed maturity market prices due to the current interest rate environment. The Company does not currently intend to sell nor does it expect to be required to sell any of the securities in an unrealized loss position. Based upon the Company's expected continuation of receipt of contractually required principal and interest payments and its intent and ability to retain the securities until price recovery, as well as the Company's evaluation of other relevant factors, including those described above, the Company has deemed these securities to be temporarily impaired as of December 31, 2019.

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Investment income was earned from the following sources:

	2019	2018
Fixed maturities	\$ 8,485	\$ 8,432
Equity securities	282	440
Other	319	677
	9,086	9,549
Investment expenses	107	—
Net investment income	<u>\$ 8,979</u>	<u>\$ 9,549</u>

A summary of realized investment gains (losses) follows:

	2019			
	Fixed Maturities	Equity Securities	Other Invested Assets	Total
Gains	\$ 2,003	\$ 1,221	\$ —	\$ 3,224
Losses	(1,650)	—	—	(1,650)
Realized investment gains (losses), net	<u>\$ 353</u>	<u>\$ 1,221</u>	<u>\$ —</u>	<u>\$ 1,574</u>

	2018			
	Fixed Maturities	Equity Securities	Other Invested Assets	Total
Gains	\$ 884	\$ 272	\$ 5,827	\$ 6,983
Losses	(1,829)	—	—	(1,829)
Realized investment gains, net	<u>\$ (945)</u>	<u>\$ 272</u>	<u>\$ 5,827</u>	<u>\$ 5,154</u>

Proceeds from the sales of available-for-sale fixed maturities were as follows:

	2019	2018
Sales proceeds	\$ 117,530	\$ 30,078
Gross gains	2,003	884
Gross losses	(1,650)	(1,829)

Sales of available-for-sale securities in 2019 were primarily a result of improving the overall risk versus return profile of the portfolio.

	2019	2018
Net realized and unrealized gains (losses) recognized during the period on equity securities	\$ 6,732	\$ (1,922)
Less: Net realized gains (losses) recognized during the period on equity securities sold during the period	1,221	272
Unrealized gains (losses) on equity securities, net	<u>\$ 5,511</u>	<u>\$ (2,194)</u>

The Company's bond portfolio included 98% investment grade securities, as defined by the NAIC, at December 31, 2019.

Variable Interest Entities

The Company holds passive interests in a number of entities that are considered to be Variable Interest Entities (VIEs) under GAAP guidance. The Company's VIE interests principally consist of interests in limited partnerships and limited liability companies formed for the purpose of achieving diversified equity returns. The Company's VIE interests, carried as a part of other invested assets, totaled \$9,960 and \$7,424 at December 31, 2019 and 2018, respectively. The Company's VIE interests, carried as a part of investment in unconsolidated subsidiaries, totaled \$1,238 at December 31, 2019 and 2018.

The Company does not have power over the activities that most significantly impact the economic performance of these VIEs and thus is not the primary beneficiary. Therefore, the Company has not consolidated these VIEs. The Company's involvement with each VIE is limited to its direct ownership interest in the VIE. The Company has no arrangements with any of the VIEs to provide other financial support to or on behalf of the VIE. The Company's maximum loss exposure relative to these investments was limited to the carrying value of the Company's investment in the VIEs, which amount to \$11,198 and \$8,662, at December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, the Company has outstanding commitments totaling \$1,997 and \$0, respectively, whereby the Company is committed to fund these investments and may be called by such VIEs during the commitment period to fund the purchase of new investments and partnership expenses.

Note 3. Disclosures About Fair Value of Financial Instruments

The estimated fair values have been determined by the Company using available market information from various market sources and appropriate valuation methodologies as of the respective dates. However, considerable judgment is necessary to interpret market data and to develop the estimates of fair value. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, the estimates presented herein are not necessarily indicative of the amounts which the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following describes the fair value hierarchy and provides information as to the extent to which the Company uses fair value to measure the value of its financial instruments and information about the inputs used to value those financial instruments. The fair value hierarchy prioritizes the inputs in the valuation techniques used to measure fair value into three broad levels.

- Level 1 Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. The Company's financial instruments valued using Level 1 criteria include cash equivalents and exchange traded common stocks.
- Level 2 Observable inputs, other than quoted prices included in Level 1, for an asset or liability or prices for similar assets or liabilities. The Company's financial instruments valued using Level 2 criteria include significantly most of its fixed maturities, which consist of U.S. Treasury securities, U.S. Government securities, obligations of states and political subdivisions, and certain corporate fixed maturities, as well as its non-redeemable preferred stocks. In determining fair value measurements of its fixed maturities and non-redeemable preferred stocks using Level 2 criteria, the Company utilizes data from outside sources, including nationally recognized pricing services and broker/dealers. Prices for the majority of the Company's Level 2 fixed maturities and non-redeemable preferred stocks were determined using unadjusted prices received from pricing services that utilize models where the significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities) or can be corroborated by observable market data.
- Level 3 Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). Fair value is based on criteria that use assumptions or other data that are not readily observable from objective sources. The Company's financial instruments valued using Level 3 criteria consist of a limited number of fixed maturities. The use of different criteria or assumptions regarding data may have yielded materially different valuations.

Recurring Fair Value Measurements

Cash Equivalents. The carrying amount approximates fair value due to the short-term nature of the instruments.

Fixed Maturities and Common and Non-Redeemable Preferred Stocks. The carrying amount is determined in accordance with methods prescribed by the NAIC, which do not differ materially from publicly quoted market prices. Certain fixed maturities do not have publicly quoted values and consist solely of issuances of pooled debt

obligations of multiple, smaller financial services companies. They are not actively traded and valuation techniques used to measure fair value are based on future estimated cash flows discounted at reasonable estimated rates of interest. Other qualitative and quantitative information received from the original underwriter of the pooled offerings is also considered, as applicable.

Nonrecurring Fair Value Measurements

Non-publicly Traded Invested Assets. The fair value of investments in certain limited partnerships which are included in other invested assets on the consolidated balance sheet were determined by officers of those limited partnerships.

Policy Loans. Policy loans, which are categorized as Level 2 fair value measurements, are carried at the unpaid principal balances.

Junior Subordinated Debentures. The fair value is estimated based on observable interest rates and yields for debt instruments having similar characteristics.

As of December 31, 2019, financial instruments carried at fair value were measured on a recurring basis as summarized below:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Fixed maturities	\$ —	\$ 232,472	\$ —	\$232,472
Equity securities	22,922	—	—	22,922
Cash equivalents	7,173	—	—	7,173
Total	\$ 30,095	\$ 232,472	\$ —	\$262,567

As of December 31, 2018, financial instruments carried at fair value were measured on a recurring basis as summarized below:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Fixed maturities	\$ 11,413	\$197,907	\$ 1,066 ⁽¹⁾	\$ 210,386
Equity securities	16,398	4,360 ⁽¹⁾	—	20,758
Cash equivalents	8,250	—	—	8,250
Total	\$ 36,061	\$202,267	\$ 1,066	\$ 239,394

⁽¹⁾ All underlying securities are financial service industry related.

The following is a roll-forward of the Company's fixed maturities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) from January 1, 2018 to December 31, 2019.

	Fixed Maturities
Balance, January 1, 2018	\$ 1,369
Total realized gains included in earnings	208
Total unrealized losses included in other comprehensive loss	(28)
Settlements	(483)
Balance, December 31, 2018	1,066
Total transferred out of level 3	(1,066)
Balance, December 31, 2019	\$ —

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The Company's fixed maturities valued using Level 3 inputs consist solely of issuances of pooled debt obligations of multiple, smaller financial services companies that are not actively traded. There are no assumed prepayments and/or default probability assumptions as a majority of these instruments contain certain U.S. government agency strips to support repayment of the principal. Other qualitative and quantitative information received from the original underwriter of the pooled offerings is also considered, as applicable. Transfer out of Level 3 were the result of valuing those securities using Level 2 criteria.

The following table sets forth the carrying amount, estimated fair value and level within the fair value hierarchy of the Company's financial instruments as of December 31, 2019 and 2018.

	Level in Fair Value Hierarchy ⁽¹⁾	2019		2018	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:					
Cash and cash equivalents	Level 1	\$ 12,893	\$ 12,893	\$ 12,630	\$ 12,630
Fixed maturities	(1)	232,472	232,472	210,386	210,386
Equity securities	(1)	22,922	22,922	20,758	20,758
Other invested assets	Level 3	9,960	9,960	7,424	7,424
Policy loans	Level 2	2,007	2,007	2,085	2,085
Real estate	Level 2	38	38	38	38
Investments in unconsolidated trusts	Level 2	1,238	1,238	1,238	1,238
Liabilities:					
Junior Subordinated Debentures, net	Level 2	33,738	35,977	33,738	33,738

⁽¹⁾ See the aforementioned information for a description of the fair value hierarchy as well as a disclosure of levels for classes of these financial assets.

Note 4. Deferred Policy Acquisition Costs

The following table presents a rollforward of deferred policy acquisition costs by segment for the years ended December 31.

	2019		2018	
	American Southern	Bankers Fidelity	American Southern	Bankers Fidelity
Deferred policy acquisition costs:				
Balance, beginning of year	\$ 2,047	\$ 35,047	\$ 2,075	\$ 30,619
Capitalization	8,761	10,294	7,893	14,118
Amortization	(8,829)	(8,459)	(7,921)	(9,690)
Balance, end of year	<u>\$ 1,979</u>	<u>\$ 36,882</u>	<u>\$ 2,047</u>	<u>\$ 35,047</u>

Note 5. Insurance Reserves and Policyholder Funds

The following table presents the Company's reserves for life, accident and health, and property and casualty losses, claims and loss adjustment expenses at December 31, 2019 and 2018.

	2019	2018	Amount of Insurance In Force, Net	
			2019	2018
Future policy benefits				
Life insurance policies:				
Ordinary life and annuities	\$ 55,403	\$ 55,965	\$ 212,774	\$ 219,955
Group life	93	37	33,508 ⁽¹⁾	93
	55,496	56,002	<u>\$ 246,282</u>	<u>\$ 220,048</u>
Accident and health insurance policies	36,994	34,255		
	92,490	90,257		
Unearned premiums	26,035	24,206		
Losses, claims and loss adjustment expenses	81,448	72,612		
Other policy liabilities	1,933	1,973		
Total insurance reserves and policyholder funds	<u>\$ 201,906</u>	<u>\$ 189,048</u>		

⁽¹⁾ The group life in force amounts increased significantly during 2019. However, the impact on future policy benefits is not significant.

Annualized premiums for accident and health insurance policies were \$112,734 and \$116,404 at December 31, 2019 and 2018, respectively.

Future Policy Benefits

Liabilities for life insurance future policy benefits are based upon assumed future investment yields, mortality rates, and withdrawal rates after giving effect to possible risks of unexpected claim experience. The assumed mortality and withdrawal rates are based upon the Company's experience. The interest rates assumed for life, accident and health future policy benefits are generally: (i) 2.5% to 5.5% for issues prior to 1977, (ii) 7% graded to 5.5% for 1977 through 1979 issues, (iii) 9% for 1980 through 1987 issues, (iv) 5% to 7% for 1988 through 2009 issues, (v) 4% for 2010 through 2012 issues, and (vi) 3.5% to 4.0% for 2013 through 2019 issues.

Loss and Claim Reserves

Loss and claim reserves represent estimates of projected ultimate losses and are based upon: (a) management's estimate of ultimate liability and claims adjusters' evaluations for unpaid claims reported prior to the close of the accounting period, (b) estimates of IBNR claims based on past experience, and (c) estimates of loss adjustment expenses. The estimated liability is periodically reviewed by management and updated, with changes to the estimated liability recorded in the statement of operations in the year in which such changes are known.

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

	2019	2018
Balance at January 1	\$ 72,612	\$ 65,689
Less: Reinsurance recoverable on unpaid losses	(14,354)	(11,968)
Net balance at January 1	58,258	53,721
Incurred related to:		
Current year	137,305	128,242
Prior years	(80) ⁽¹⁾	308 ⁽²⁾
Total incurred	137,225	128,550
Paid related to:		
Current year	95,489	90,981
Prior years	36,885	33,032
Total paid	132,374	124,013
Net balance at December 31	63,109	58,258
Plus: Reinsurance recoverable on unpaid losses	18,339	14,354
Balance at December 31	\$ 81,448	\$ 72,612

⁽¹⁾ Prior years' development was primarily the result of better than expected development on prior years loss and claim reserves for certain lines of business in American Southern, somewhat offset by unfavorable development on prior years loss and claim reserves for the Medicare Supplement line of business in Bankers Fidelity.

⁽²⁾ Prior years' development was primarily the result of unfavorable development in the loss and claim reserves for the Medicare supplement line of business in Bankers Fidelity, somewhat offset by better than expected development on prior years loss and claim reserves for certain lines of business in American Southern.

Following is a reconciliation of total incurred losses to total insurance benefits and losses incurred:

	2019	2018
Total incurred losses	\$ 137,225	\$ 128,550
Cash surrender value and matured endowments	1,362	1,316
Benefit reserve changes	638	2,784
Total insurance benefits and losses incurred	\$ 139,225	\$ 132,650

Liability for Unpaid Losses, Claims and Loss Adjustment Expenses

The following is information, by significant product lines, about incurred and paid claims development as of December 31, 2019, net of reinsurance, as well as the cumulative number of reported claims and the total of IBNR reserves plus expected development on reported claims included within the net incurred claims amounts. The information presented for the years ended December 31, 2015 and prior is presented as supplementary information and is unaudited.

Medicare Supplement
For the Years Ended December 31,

Accident Year	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance										As of December 31, 2019	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	IBNR Reserves	Cumulative Number of Reported Claims
2010	\$34,849										\$	625,699
2011		38,188									—	664,057
2012			50,021								—	867,052
2013				56,974							—	957,369
2014					57,179						—	939,482
2015						55,482					—	898,387
2016							58,849				—	1,036,885
2017								67,960			—	1,512,117
2018									79,140		182	2,049,554
2019										88,765	16,432	1,976,968
										<u>\$594,558</u>		
Accident Year	Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
2010	\$ 29,127	\$ 34,328	\$ 34,323	\$ 34,303	\$ 34,282	\$ 34,272	\$ 34,268	\$ 34,265	\$ 34,264	\$ 34,264		
2011		31,720	38,296	38,360	38,327	38,316	38,302	38,299	38,297	38,297		
2012			42,267	50,996	51,021	50,998	50,989	50,987	50,985	50,984		
2013				47,770	56,970	57,034	57,023	57,021	57,016	57,015		
2014					48,024	56,938	56,981	56,981	56,976	56,977		
2015						45,430	54,876	54,993	54,990	54,984		
2016							49,165	59,747	63,226	63,225		
2017								57,696	69,517	69,643		
2018									66,565	80,222		
2019										72,333		
										<u>\$ 577,944</u>		
												<u>\$ 16,614</u>

Liabilities for losses, claims and loss adjustment expenses, net of reinsurance

The cumulative number of reported claims for the Medicare supplement line of business is the number of distinct claims incurred and submitted to Medicare for payment in the given year. Multiple payments on the same claim are not counted in the frequency information. Estimated ultimate claims incurred, using claims data reported during each month of any given year, are calculated using the chain ladder method modified to use seasonality and trend-adjusted expected claims for the final two months. Additional adjustments to the estimated ultimate claims incurred are then applied to account for seasonal changes in billing and payment frequencies. The IBNR reserve is calculated as estimated ultimate claims less paid claims and claims in course of settlement. Thirty-six months of loss data are used to develop the estimated ultimate incurred claims. Similar approaches are used for other less significant health products, subject to modifications to account for unique aspects of the product.

As of December 31, 2019

Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance

Liabilities for losses, claims and loss adjustment expenses, net of reinsurance	\$ 35,165

For the Years Ended December 31,

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Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance						
Accident Year	2015	2016	2017	2018	2019	
2015	\$ \$6,745	\$ 7,937	\$ 7,885	\$ 7,895	\$ 7,884	
2016		5,804	6,353	6,349	6,289	
2017			5,215	5,914	5,856	
2018				6,344	7,510	
2019					6,360	
					\$ 33,899	
	All outstanding liabilities before 2015, net of reinsurance					—
	Liabilities for losses, claims and loss adjustment expenses, net of reinsurance					\$ 2,187

General Liability

For the Years Ended December 31,

											As of December 31, 2019	
Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance											IBNR Reserves	Cumulative Number of Reported Claims
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
2010	\$4,114	\$ 2,699	\$ 2,269	\$ 2,337	\$ 2,258	\$ 2,400	\$ 2,423	\$ 2,473	\$ 2,480	\$ 2,490	\$ 0	289
2011		3,022	1,723	1,452	1,338	1,174	1,242	1,327	1,335	1,400	18	208
2012			4,055	1,305	1,269	1,270	1,214	1,333	1,344	1,377	25	159
2013				3,461	728	926	817	865	820	945	33	195
2014					3,744	501	557	476	406	497	1	193
2015						4,421	1,037	1,227	1,044	867	1	146
2016							3,119	1,148	736	608	0	85
2017								1,490	488	513	70	77
2018									1,656	333	127	73
2019										1,916	1,598	61
											\$10,946	
Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance												
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
2010	\$ 284	\$ 678	\$ 1,374	\$ 1,542	\$ 2,037	\$ 2,368	\$ 2,382	\$ 2,457	\$ 2,463	\$ 2,490		
2011		295	412	582	835	1,161	1,169	1,278	1,285	1,325		
2012			371	707	847	1,034	1,113	1,219	1,260	1,269		
2013				104	339	579	811	791	803	805		
2014					171	299	331	369	373	493		
2015						98	259	464	664	863		
2016							116	203	568	608		
2017								75	136	365		
2018									65	90		
2019										41		
											\$ 8,349	
All outstanding liabilities before 2010, net of reinsurance											441	
Liabilities for losses, claims and loss adjustment expenses, net of reinsurance											\$ 3,038	

Surety

For the Years Ended December 31,

											As of December 31, 2019	
Incurring Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance											IBNR Reserves	Cumulative Number of Reported Claims
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
2010	\$ 3,995	\$ 4,624	\$ 3,618	\$ 3,396	\$ 3,607	\$ 3,549	\$ 3,563	\$ 3,534	\$ 3,530	\$ 3,525	\$ —	95
2011		4,422	4,786	5,080	5,092	4,966	5,031	5,112	5,111	5,112	—	126
2012			4,979	4,767	5,396	5,345	4,869	4,880	4,892	4,925	2	89
2013				3,060	2,007	2,743	2,947	2,866	2,809	2,765	—	58
2014					3,214	3,130	2,990	2,760	2,685	2,617	5	54
2015						1,902	1,630	1,400	1,359	1,406	47	50
2016							3,314	1,812	1,865	1,876	—	46
2017								4,677	3,671	3,799	79	58
2018									3,528	1,938	236	62
2019										2,130	1,699	29
										<u>\$30,093</u>		
Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance												
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
2010	\$ 928	\$ 2,193	\$ 2,780	\$ 2,943	\$ 3,252	\$ 3,545	\$ 3,560	\$ 3,534	\$ 3,530	\$ 3,525		
2011		1,031	3,207	4,622	4,748	4,939	5,022	5,109	5,111	5,112		
2012			2,257	4,581	4,856	5,331	4,869	4,880	4,878	4,916		
2013				323	1,010	1,369	2,763	2,789	2,749	2,765		
2014					1,331	2,327	2,727	2,739	2,664	2,593		
2015						641	856	1,127	1,125	1,128		
2016							1,054	1,732	1,772	1,873		
2017								1,971	3,255	3,523		
2018									1,157	1,454		
2019										259		
										<u>\$ 27,148</u>		
All outstanding liabilities before 2010, net of reinsurance											—	
Liabilities for losses, claims and loss adjustment expenses, net of reinsurance											<u>\$ 2,945</u>	

For the property and casualty lines of business, the number of claims presented above equals the number of occurrences by type of claim reported to the Company. The number of claims reported during a given year corresponds to the number of claims records opened during the year. Frequency information is maintained on a cumulative basis by accident year by line of business. For automobile claims, a claim count is separately maintained for bodily injury, property damage and physical damage claims. The Company has consistently monitored claim frequency on this basis, and believes this provides more meaningful information than using claimant count which can change over the course of settling a claim.

In general, when a claim is reported, claims representatives establish a “case reserve” for the estimated amount of the ultimate payment based on the known information of the claim at that time. Claims managers review and monitor all property and casualty claims in excess of \$25,000. As new information becomes available or payments are made on a claim, the case reserve is adjusted to reflect the revised estimate of the ultimate amount to be paid out. Estimates and assumptions pertaining to individual claims are based on complex and subjective judgments and subject to change at any time as new information becomes available.

In addition to case reserves, IBNR reserves are established to provide for claims which have not been reported to the Company as of the reporting date as well as potential adverse development on known case reserves. IBNR reserve estimates are derived through a number of analytical techniques. Actuarial data is

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analyzed by line of business, coverage and accident year. Qualitative factors are also considered in determining IBNR reserves and include such factors as judicial decisions, general economic trends such as inflation, changes in policy forms, and underwriting changes. Reserves are reviewed quarterly and any indicated adjustments are made.

Because of the inherent uncertainties in establishing both case and IBNR reserves, ultimate loss experience may prove better or worse than indicated by the combined claim reserves. Adjustments to claim reserves are reflected in the period recognized and could increase or decrease earnings for the period.

The following is supplementary information about average historical claims duration as of December 31, 2019.

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)										
Reserve Line	1 st Year	2 nd Year	3 rd Year	4 th Year	5 th Year	6 th Year	7 th Year	8 th Year	9 th Year	10 th Year
Medicare Supplement	83.0%	16.8%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Automobile Liability	30.2%	31.3%	17.4%	12.9%	5.0%	2.1%	0.4%	0.9%	0.0%	0.0%
Automobile Physical Damage	85.1%	12.8%	-0.6%	-0.4%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
General Liability	17.1%	16.8%	26.3%	14.3%	11.8%	9.4%	2.9%	1.4%	1.5%	1.1%
Surety	38.0%	32.1%	13.3%	10.4%	0.2%	1.2%	0.7%	0.0%	0.0%	-0.1%

The reconciliation of the net incurred and paid claims development tables to the liability for losses, claims and loss adjustment expenses is as follows:

	December 31, 2019
Net outstanding liabilities:	
Medicare Supplement	\$ 16,614
Automobile Liability	35,165
Automobile Physical Damage	2,187
General Liability	3,038
Surety	2,945
Other short-duration insurance lines	1,043
Liabilities for unpaid losses, claims and loss adjustment expenses, net of reinsurance	60,992
Reinsurance recoverable on unpaid losses:	
Medicare Supplement	10,620
Automobile Liability	5,566
Automobile Physical Damage	143
General Liability	2,010
Total reinsurance recoverable on unpaid losses	18,339
Unallocated claims adjustment expenses	2,117
Total gross liability for unpaid losses, claims and loss adjustment expenses	\$ 81,448

Note 6. Reinsurance

In accordance with general practice in the insurance industry, portions of the life, property and casualty insurance written by the Company are reinsured; however, the Company remains liable with respect to reinsurance ceded should any reinsurer be unable or unwilling to meet its obligations. Approximately 99.7% of the Company's reinsurance recoverables were due from a single reinsurer as of December 31, 2019. Reinsurance recoverables of \$32,035 were due from General Re Corporation, rated "AA+" by Standard & Poor's and "A++" (Superior) by A.M. Best. Allowances for uncollectible amounts are established against reinsurance recoverables, if appropriate.

The effects of reinsurance on premiums written, premiums earned and insurance benefits and losses incurred were as follows:

	2019	2018
Direct premiums written	\$ 237,973	\$ 220,415
Assumed premiums written	23,275	20,093
Ceded premiums written	(77,750)	(66,845)
Net premiums written	<u>\$ 183,498</u>	<u>\$ 173,663</u>
Direct premiums earned	\$ 237,361	\$ 219,785
Assumed premiums earned	22,345	19,680
Ceded premiums earned	(77,781)	(66,534)
Net premiums earned	<u>\$ 181,925</u>	<u>\$ 172,931</u>
Provision for benefits and losses incurred	\$ 206,390	\$ 188,275
Reinsurance loss recoveries	(67,165)	(55,625)
Insurance benefits and losses incurred	<u>\$ 139,225</u>	<u>\$ 132,650</u>

Components of reinsurance receivables at December 31, 2019 and 2018 were as follows:

	2019	2018
Recoverable on unpaid losses	\$ 18,339	\$ 14,354
Recoverable on unpaid benefits	10,772	9,355
Recoverable on paid losses	1,538	992
Ceded unearned premiums	1,155	1,185
Ceded advanced premiums	331	224
Total reinsurance receivables	<u>\$ 32,135</u>	<u>\$ 26,110</u>

Note 7. Income Taxes

Total income taxes were allocated as follows:

	2019	2018
Total tax benefit on income	\$ (21)	\$ (267)
Tax benefit on components of shareholders' equity:		
Net unrealized gains (losses) on investment securities	(4,783)	(2,541)
Total tax benefit	<u>\$ (4,804)</u>	<u>\$ (2,808)</u>

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A reconciliation of the differences between income taxes computed at the federal statutory income tax rate and the income tax benefit is as follows:

	2019	2018
Federal income tax provision	\$ (86)	\$ (204)
Statutory rate	21%	21%
Dividends-received deduction	(23)	(39)
Meals & entertainment	55	56
Vested stock & club dues	37	19
Parking disallowance	17	—
Adjustment for prior years' estimates to actual	(21)	(99)
Income tax benefit	\$ (21)	\$ (267)
Effective tax rate	5.2%	27.5%

The primary differences between the effective tax rate and the federal statutory income tax rate for 2019 resulted from permanent differences related to meals & entertainment and vested stock grants. Also contributing to differences between the effective tax rate and the federal statutory income tax rate was the dividends-received deduction ("DRD"). The current estimated DRD is adjusted as underlying factors change and can vary from estimates based on, but not limited to, actual distributions from investments as well as the amount of the Company's taxable income.

The primary differences between the effective tax rate and the federal statutory income tax rate for 2018 resulted from provision-to-filed return adjustments that are generally updated at the completion of the third quarter of each fiscal year and were \$99 in the year ended December 31, 2018.

Deferred tax liabilities and assets at December 31, 2019 and 2018 were comprised of the following:

	2019	2018
Deferred tax assets:		
Deferred acquisition costs	\$ 2,540	\$ 175
Insurance reserves	3,323	3,410
Impaired assets	822	1,142
Bad debts and other	319	332
Total deferred tax assets	7,004	5,059
Deferred tax liabilities:		
Deferred and uncollected premiums	\$ (328)	\$ (360)
Net unrealized investment gains	(6,090)	(148)
Other	(272)	(367)
Total deferred tax liabilities	(6,690)	(875)
Net deferred tax asset	\$ 314	\$ 4,184

The components of income tax expense (benefit) were:

	2019	2018
Current - Federal	\$ 892	\$ 1,969
Deferred - Federal	(913)	(2,236)
Total	\$ (21)	\$ (267)

The Company has formal tax-sharing agreements, and files a consolidated income tax return, with its subsidiaries. Tax years prior to 2016 have been audited by the Internal Revenue Service and are closed.

Note 8. Junior Subordinated Debentures

The Company has two unconsolidated Connecticut statutory business trusts, which exist for the exclusive purposes of: (i) issuing trust preferred securities (“Trust Preferred Securities”) representing undivided beneficial interests in the assets of the trusts; (ii) investing the gross proceeds of the Trust Preferred Securities in junior subordinated deferrable interest debentures (“Junior Subordinated Debentures”) of Atlantic American; and (iii) engaging in those activities necessary or incidental thereto. At December 31, 2019, the effective interest rate was 5.96%.

The financial structure of each of Atlantic American Statutory Trust I and II, as of December 31, 2019 and 2018, was as follows:

	Atlantic American Statutory Trust I	Atlantic American Statutory Trust II
JUNIOR SUBORDINATED DEBENTURES⁽¹⁾⁽²⁾		
Balance December 31, 2019	\$18,042	\$23,196
Less: Treasury debt ⁽³⁾	—	(7,500)
Net balance December 31, 2019	\$18,042	\$15,696
Net balance December 31, 2018	\$18,042	\$15,696
Coupon rate	LIBOR + 4.00%	LIBOR + 4.10%
Interest payable	Quarterly	Quarterly
Maturity date	December 4, 2032	May 15, 2033
Redeemable by issuer	Yes	Yes
TRUST PREFERRED SECURITIES		
Issuance date	December 4, 2002	May 15, 2003
Securities issued	17,500	22,500
Liquidation preference per security	\$1	\$1
Liquidation value	\$17,500	\$22,500
Coupon rate	LIBOR + 4.00%	LIBOR + 4.10%
Distribution payable	Quarterly	Quarterly
Distribution guaranteed by ⁽⁴⁾	Atlantic American Corporation	Atlantic American Corporation

⁽¹⁾ For each of the respective debentures, the Company has the right at any time, and from time to time, to defer payments of interest on the Junior Subordinated Debentures for a period not exceeding 20 consecutive quarters up to the debentures’ respective maturity dates. During any such period, interest will continue to accrue and the Company may not declare or pay any cash dividends or distributions on, or purchase, the Company’s common stock nor make any principal, interest or premium payments on or repurchase any debt securities that rank equally with or junior to the Junior Subordinated Debentures. The Company has the right at any time to dissolve each of the trusts and cause the Junior Subordinated Debentures to be distributed to the holders of the Trust Preferred Securities.

⁽²⁾ The Junior Subordinated Debentures are unsecured and rank junior and subordinate in right of payment to all senior debt of the Parent and are effectively subordinated to all existing and future liabilities of its subsidiaries.

⁽³⁾ In 2014, the Company acquired \$7,500 of the Junior Subordinated Debentures.

⁽⁴⁾ The Parent has guaranteed, on a subordinated basis, all of the obligations under the Trust Preferred Securities, including payment of the redemption price and any accumulated and unpaid distributions to the extent of available funds and upon dissolution, winding up or liquidation.

Note 9. Leases

The Company has two operating lease agreements, each for the use of office space in the ordinary course of business. The first lease renews annually on an automatic basis and based on original assumptions, management is reasonably certain to exercise the renewal option for an additional eight years from the January 1, 2019 effective date of the new lease guidance. The original term of the second lease was ten years and amended in January 2017 to provide for an additional seven years, with a termination date on September 30, 2026. The rate used in determining the present value of lease payments is based upon an estimate of the Company's incremental secured borrowing rate commensurate with the term of the underlying lease.

These leases are accounted for as operating leases, whereby lease expense is recognized on a straight-line basis over the term of the lease. Lease expense reported for the year ended December 31, 2019 was \$1,014. See the "Adoption of New Accounting Standards – Leases" section of Note 1 of Notes to Consolidated Financial Statements for additional information regarding the accounting for leases.

Additional information regarding the Company's real estate operating leases is as follows:

	Year Ended December 31, 2019
Other information on operating leases:	
Cash payments included in the measurement of lease liabilities reported in operating cash flows	\$815
Right-of-use assets included in other assets on the consolidated balance sheet	5,476
Weighted average discount rate	6.8%
Weighted average remaining lease term in years	6.9 years

The following table presents maturities and present value of the Company's lease liabilities:

	Lease Liability
2020	\$ 978
2021	1,015
2022	1,031
2023	1,048
2024	1,065
Thereafter	2,025
Total undiscounted lease payments	7,162
Less: present value adjustment	1,487
Operating lease liability included in accounts payable and accrued expenses on the consolidated balance sheet	\$ 5,675

As of December 31, 2019, the Company has no operating leases that have not yet commenced.

Note 10. Benefit Plans***Equity Incentive Plan***

On May 1, 2012, the Company's shareholders approved the 2012 Equity Incentive Plan (the "2012 Plan"). The 2012 Plan authorizes the grant of up to 2,000,000 stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares, performance units and other awards for the purpose of providing the Company's non-employee directors, consultants, officers and other employees incentives and rewards for superior performance. In 2019, a total of 355,000 restricted shares, with an estimated fair value of \$948, were issued under the 2012 Plan. In 2018, a total of 30,000 restricted shares, with an estimated fair value of \$87, were issued under the 2012 Plan and 64,000 restricted shares, with an estimated fair value of \$236, were forfeited under such plan. The estimated fair value of the restricted shares issued under the 2012 Plan for 2019 and 2018 was based on the common stock price at date of grant. Stock grants are generally issued from treasury shares. Vesting of restricted shares generally occurs after a one to three year period. The Company accounts for forfeitures as they occur. There were no stock options granted or outstanding under the 2012 Plan in 2019 or 2018. Shares available for future grant at December 31, 2019 and 2018 were 920,200 and 1,275,200, respectively.

401(k) Plan

The Company initiated an employees' savings plan (the "Plan") qualified under Section 401(k) of the Internal Revenue Code in May 1995. The Plan covers substantially all of the Company's employees. Effective January 1, 2009, the Company modified the Plan such that the Plan would operate on a safe harbor basis. Under the Plan, employees may defer up to 50% of their compensation, not to exceed the annual deferral limit. The Company's total matching contribution for 2019 and 2018 was \$230 and \$233, respectively, and consisted of a contribution equal to 35% of up to the first 6% of each participant's contributions. In addition to the matching contribution, the Company also provided a 3% safe harbor non-elective contribution in 2019 and 2018 of \$524 and \$491, respectively. All contributions were made in cash. Participants are 100% vested in their own contributions and the vested percentage attributable to certain employer contributions is based on a five year graded schedule.

Agent Stock Purchase Plan

The Company initiated a nonqualified stock purchase plan (the "Agent Stock Purchase Plan") in May 2012. The purpose of the Agent Stock Purchase Plan is to promote and advance the interests of the Company and its shareholders by providing independent agents who qualify as participants with an opportunity to purchase the common stock of the Company. Under the Agent Stock Purchase Plan, payment for shares of common stock of the Company is made by either deduction from an agent's commission payment or a direct cash payment. Stock purchases are made at the end of each calendar quarter at the then current market value.

Note 11. Preferred Stock

The Company had 55,000 shares of Series D preferred stock ("Series D Preferred Stock") outstanding at December 31, 2019 and 2018, respectively. All of the shares of Series D Preferred Stock are held by an affiliate of the Company's controlling shareholder. The outstanding shares of Series D Preferred Stock have a par value of \$1 per share and a redemption value of \$100 per share; accrue annual dividends at a rate of \$7.25 per share (payable in cash or shares of the Company's common stock at the option of the board of directors of the Company) and are cumulative. In certain circumstances, the shares of the Series D Preferred Stock may be convertible into an aggregate of approximately 1,378,000 shares of the Company's common stock, subject to certain adjustments and provided that such adjustments do not result in the Company issuing more than approximately 2,703,000 shares of common stock without obtaining prior shareholder approval; and are redeemable solely at the Company's option. The Series D Preferred Stock is not currently convertible. The Company had accrued, but unpaid, dividends, on the Series D Preferred Stock of \$18 at December 31, 2019 and 2018. During each of 2019 and 2018, the Company paid Series D Preferred Stock dividends of \$399.

Note 12. Earnings (Loss) Per Common Share

Basic earnings per share was computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share reflected the effect of potentially dilutive securities.

A reconciliation of the numerator and denominator of the loss per common share calculations is as follows:

For the Year Ended December 31, 2019			
	Loss	Weighted Average Shares Outstanding (In thousands)	Per Share Amount
Basic and Diluted Loss Per Common Share			
Net loss before preferred stock dividends	\$ (386)	20,258	
Less preferred stock dividends	(399)	—	
Net loss applicable to common shareholders	<u>\$ (785)</u>	<u>20,258</u>	<u>\$ (.04)</u>
For the Year Ended December 31, 2018			
	Loss	Weighted Average Shares Outstanding (In thousands)	Per Share Amount
Basic and Diluted Loss Per Common Share			
Net loss before preferred stock dividends	\$ (704)	20,284	
Less preferred stock dividends	(399)	—	
Net loss applicable to common shareholders	<u>\$ (1,103)</u>	<u>20,284</u>	<u>\$ (.05)</u>

The assumed conversion of the Company's Series D Preferred Stock was excluded from the earnings per common share calculation for 2019 and 2018 since its impact would have been antidilutive.

Note 13. Statutory Reporting

The assets, liabilities and results of operations have been reported on the basis of GAAP, which varies in some respects from statutory accounting practices ("SAP") prescribed or permitted by insurance regulatory authorities. The principal differences between SAP and GAAP are that under SAP: (i) certain assets that are non-admitted assets are eliminated from the balance sheet; (ii) acquisition costs for policies are expensed as incurred, while they are deferred and amortized over the estimated life of the policies under GAAP; (iii) the provision that is made for deferred income taxes is different than under GAAP; (iv) the timing of establishing certain reserves is different than under GAAP; and (v) certain valuation allowances attributable to certain investments are different.

The Company meets the minimum capital requirements in the states in which it does business. The amount of reported statutory net income and surplus (shareholders' equity) for the Parent's insurance subsidiaries for the years ended December 31 was as follows:

	2019	2018
Bankers Fidelity, net loss	\$ (9,509)	\$ (3,963)
American Southern, net income	4,778	5,445
Statutory net income (loss)	<u>\$ (4,731)</u>	<u>\$ 1,482</u>
Bankers Fidelity, surplus	\$ 35,546	\$ 34,214
American Southern, surplus	45,827	43,467
Statutory surplus	<u>\$ 81,373</u>	<u>\$ 77,681</u>

Under the insurance code of the state in which each insurance subsidiary is domiciled, dividend payments to the Parent by its insurance subsidiaries are subject to certain limitations without the prior approval of the applicable state's Insurance Commissioner. The Parent received dividends of \$4,800 in each of the years ended 2019 and 2018, respectively, from its subsidiaries. In 2020, dividend payments to the Parent by the insurance subsidiaries in excess of \$4,583 would require prior approval.

Note 14. Related Party Transactions

In the normal course of business the Company has engaged in transactions with entities affiliated with the controlling shareholder of the Company. These transactions include the leasing of office space as well as certain investing and financing activities. At December 31, 2019, two members of the Company's board of directors, including the Company's chairman, president and chief executive officer, were considered to be affiliates of the majority shareholder.

The Company leases approximately 49,586 square feet of office and covered garage space from one such controlled entity. During the years ended December 31, 2019 and 2018, the Company paid \$908 and \$781, respectively, under this lease.

Certain financing for the Company has also been provided by this entity in the form of an investment in the Series D Preferred Stock (See Note 11). During the years ended December 31, 2019 and 2018, the Company paid this entity \$399 in dividends on the Series D Preferred Stock.

Certain members of the Company's management and board of directors are shareholders and on the board of directors of Gray Television, Inc. ("Gray"). As of December 31, 2019 and 2018, the Company owned 880,272 shares of Gray Class A common stock and 106,000 shares of Gray common stock. The aggregate carrying value of these investments in Gray at December 31, 2019 and 2018 was \$19,764 and \$13,226, respectively.

During the years ended December 31, 2019 and 2018, Gray paid the Company approximately \$1,022 and \$783, respectively, in insurance premiums related to certain voluntary employee benefit plans.

During the year ended December 31, 2019, the Company transferred its remaining fractional interest in an aircraft arrangement to Gray Television, Inc. for \$151.

Note 15. Segment Information

The Parent's primary insurance subsidiaries operate with relative autonomy and each company is evaluated based on its individual performance. American Southern operates in the property and casualty insurance market, while Bankers Fidelity operates in the life and health insurance market. Each segment derives revenue from the collection of premiums, as well as from investment income. Substantially all revenue other than that in the corporate and other segment is from external sources.

	For the Year Ended December 31, 2019				
	American Southern	Bankers Fidelity	Corporate & Other	Adjustments & Eliminations	Consolidated
Insurance premiums, net	\$ 58,680	\$ 123,245	\$ —	\$ —	\$ 181,925
Insurance benefits and losses incurred	39,541	99,684	—	—	139,225
Expenses deferred	(8,761)	(10,294)	—	—	(19,055)
Amortization and depreciation expense	9,024	8,709	551	—	18,284
Other expenses	16,869	37,158	15,939	(9,834)	60,132
Total expenses	56,673	135,257	16,490	(9,834)	198,586
Underwriting income (loss)	2,007	(12,012)			
Net investment income	3,689	5,317	2,597	(2,624)	8,979
Other income	75	18	7,307	(7,210)	190
Operating income (loss)	5,771	(6,677)	(6,586)	—	(7,492)
Net realized gains (losses)	(386)	840	1,120	—	1,574
Unrealized gains on equity securities	344	2,191	2,976	—	5,511
Income (loss) before income taxes	\$ 5,729	\$ (3,646)	\$ (2,490)	\$ —	\$ (407)
Total revenues	\$ 62,402	\$ 131,611	\$ 14,000	\$ (9,834)	\$ 198,179
Intangibles	\$ 1,350	\$ 1,194	\$ —	\$ —	\$ 2,544
Total assets	\$ 141,524	\$ 224,122	\$ 154,687	\$ (142,707)	\$ 377,626

	For the Year Ended December 31, 2018				
	American Southern	Bankers Fidelity	Corporate & Other	Adjustments & Eliminations	Consolidated
Insurance premiums, net	\$ 53,807	\$ 119,124	\$ —	\$ —	\$ 172,931
Insurance benefits and losses incurred	38,829	93,821	—	—	132,650
Expenses deferred	(7,893)	(14,118)	—	—	(22,011)
Amortization and depreciation expense	7,991	9,892	715	—	18,598
Other expenses	14,666	36,514	16,613	(10,506)	57,287
Total expenses	53,593	126,109	17,328	(10,506)	186,524
Underwriting income (loss)	214	(6,985)			
Net investment income	3,783	5,382	2,895	(2,511)	9,549
Other income	8	7	8,093	(7,995)	113
Operating income (loss)	4,005	(1,596)	(6,340)	—	(3,931)
Net realized gains	1,876	3,006	272	—	5,154
Unrealized losses on equity securities	(220)	(514)	(1,460)	—	(2,194)
Income (loss) before income taxes	\$ 5,661	\$ 896	\$ (7,528)	\$ —	\$ (971)
Total revenues	\$ 59,254	\$ 127,005	\$ 9,800	\$ (10,506)	\$ 185,553
Intangibles	\$ 1,350	\$ 1,194	\$ —	\$ —	\$ 2,544
Total assets	\$ 122,724	\$ 195,663	\$ 134,643	\$ (108,756)	\$ 344,274

Note 16. Commitments and Contingencies
Litigation

From time to time, the Company is, and expects to continue to be, involved in various claims and lawsuits incidental to and in the ordinary course of its business. In the opinion of management, any such known claims are not expected to have a material effect on the financial condition or results of operations of the Company.

Note 17. Subsequent Events

On January 30, 2020, the World Health Organization declared that the recent coronavirus disease 2019 (“COVID-19”) outbreak was a global health emergency. On March 11, 2020, the World Health Organization raised the COVID-19 outbreak to “pandemic” status. The Company can experience increased risk of loss any time unforeseen infectious diseases impact large portions of a population. Specifically, the Company’s Life and Health business could experience significant loss due to increased claims volume arising from COVID-19. As a result of a pandemic, the Company could also experience losses in its investment portfolio as a result of volatile markets. Due to the recentness of these events, the Company is unable to estimate the amount of losses at this time. However, the Company anticipates that the losses from these events will adversely impact first quarter 2020 financial statements and potentially beyond.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based on that evaluation, management, including the Chief Executive Officer and Chief Financial Officer, concluded that disclosure controls and procedures were effective as of that date.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company’s internal control over financial reporting system has been designed to provide reasonable assurance regarding the reliability and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Management recognizes that there are inherent limitations in the effectiveness of any internal control system. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Furthermore, the application of any evaluations of effectiveness on 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. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2019 based upon the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the updated 2013 *Internal Control – Integrated Framework*. Based on that evaluation, management believes that internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f) was effective as of December 31, 2019.

There were no changes in our internal control over financial reporting that occurred during the fourth quarter of 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

This Annual Report does not include an attestation report of the Company’s independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s independent registered public accounting firm pursuant to certain rules of the Securities and Exchange Commission that exempt smaller reporting companies, including the Company, from such requirement.

Item 9B. Other Information

None.

PART III

With the exception of certain information relating to the Executive Officers of the Company, which is provided in Part I hereof, the information relating to securities authorized for issuance under equity compensation plans and the information relating to the Company's Code of Business Conduct and Ethics, each of which is included below, all information required by Part III (Items 10, 11, 12, 13 and 14 of Form 10-K) is incorporated by reference to the sections entitled "Election of Directors," "Security Ownership of Certain Beneficial Owners and Management," "Delinquent Section 16(a) Reports" (if applicable), "Executive Compensation," "Certain Relationships and Related Transactions, and Director Independence" and "Ratification of Independent Registered Public Accounting Firm" to be contained in the Company's definitive proxy statement in connection with the Company's Annual Meeting of Shareholders to be held on or around May 18, 2020, to be filed with the SEC within 120 days of the Company's fiscal year end.

Equity Compensation Plan Information

The following table sets forth, as of December 31, 2019, the number of securities issuable upon exercise of outstanding options, warrants and rights, the weighted average exercise price thereof and the number of securities remaining available for future issuance under the Company's equity compensation plans:

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders	—	\$ —	920,200
Equity compensation plans not approved by security holders ⁽¹⁾	—	—	—
Total	—	\$ —	920,200

⁽¹⁾ All the Company's equity compensation plans have been approved by the Company's shareholders.

The Company has adopted a Code of Business Conduct and Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or any persons performing similar functions, as well as its directors and other employees. A copy of this Code of Business Conduct and Ethics has been filed as an exhibit to this annual report on Form 10-K.

PART IV**Item 15. Exhibits and Financial Statement Schedules**

(a) List of documents filed as part of this report:

1. Financial Statements:

See Index to Financial Statements contained in Item 8 hereof.

2. Financial Statement Schedules:

Schedule II - Condensed financial information of the registrant

Schedule III - Supplementary insurance information of the registrant

Schedule IV - Reinsurance information for the registrant

Schedule VI - Supplemental information concerning property-casualty insurance operations of the registrant

Schedules other than those listed above are omitted as they are not required or are not applicable, or the required information is shown in the financial statements or notes thereto. Columns omitted from schedules filed have been omitted because the information is not applicable.

3. Exhibits *:

3.1	- Restated Articles of Incorporation of the registrant, as amended [incorporated by reference to Exhibit 3.1 to the registrant's Form 10-K for the year ended December 31, 2008].
3.2	- Restated Bylaws of the registrant, as amended [incorporated by reference to Exhibit 3.1 to the registrant's Form 8-K filed on March 4, 2016].
4.1	- Description of the registrant's common stock registered pursuant to section 12 of the Securities Exchange Act of 1934.
10.01	- Management Agreement, dated July 1, 1993, between the registrant and Atlantic American Life Insurance Company and Bankers Fidelity Life Insurance Company [incorporated by reference to Exhibit 10.41 to the registrant's Form 10-Q for the quarter ended September 30, 1993].
10.02	- Tax Allocation Agreement, dated as of January 4, 2016, between the registrant and the registrant's subsidiaries [incorporated by reference to Exhibit 10.02 to the registrant's Form 10-K for the year ended December 31, 2017].
10.03**	- Atlantic American Corporation 2012 Nonqualified Stock Purchase Plan [incorporated by reference to Exhibit 99.1 to the registrant's Form S-8 (File No. 333-183207) filed on August 10, 2012].
10.04**	- Atlantic American Corporation 2012 Equity Incentive Plan [incorporated by reference to Exhibit 10.1 to the registrant's Form 10-Q for the quarter ended March 31, 2013].
10.05	- Lease Agreement, dated as of November 1, 2007, between Georgia Casualty & Surety Company, Bankers Fidelity Life Insurance Company, Atlantic American Corporation and Delta Life Insurance Company [incorporated by reference to Exhibit 10.10 to the registrant's Form 10-K for the year ended December 31, 2007].
10.06	- First Amendment to Lease Agreement, dated as of March 31, 2008, between Georgia Casualty & Surety Company, Bankers Fidelity Life Insurance Company, Atlantic American Corporation and Delta Life Insurance Company [incorporated by reference to Exhibit 10.2 to the registrant's Form 10-Q for the quarter ended March 31, 2008].
10.07**	- Employment and Transition Agreement with Fixed Determination Date, dated as of June 14, 2017 by and between John G. Sample, Jr. and the registrant [incorporated by reference to Exhibit 10.07 to the registrant's Form 10-K for the year ended December 31, 2017].
14.1	- Code of Business Conduct and Ethics [incorporated by reference to Exhibit 14.1 to the registrant's Form 10-K for the year ended December 31, 2003].
21.1	- Subsidiaries of the registrant [incorporated by reference to Exhibit 21.1 to the registrant's Form 10-K for the year ended December 31, 2015].
23.1	- Consent of Dixon Hughes Goodman LLP, Independent Registered Public Accounting Firm.
31.1	- Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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31.2	- Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	- Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	- XBRL Instance Document.
101.SCH	- XBRL Taxonomy Extension Schema.
101.CAL	- XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	- XBRL Taxonomy Extension Definition Linkbase.
101.LAB	- XBRL Taxonomy Extension Label Linkbase.
101.PRE	- XBRL Taxonomy Extension Presentation Linkbase.

* The registrant agrees to furnish to the Commission upon request a copy of any instruments defining the rights of security holders of the registrant that may be omitted from filing in accordance with the Commission's rules and regulations.

** Management contract, compensatory plan or arrangement required to be filed pursuant to Part IV, Item 15(c) of Form 10-K and Item 601 of Regulation S-K.

Item 16. Form 10-K Summary

None.

SIGNATURES

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

ATLANTIC AMERICAN CORPORATION
(Registrant)

By: /s/ J. Ross Franklin

J. Ross Franklin
Vice President and Chief Financial Officer

Date: March 24, 2020

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Hilton H. Howell, Jr.</u> HILTON H. HOWELL, JR.	President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 24, 2020
<u>/s/ J. Ross Franklin</u> J. ROSS FRANKLIN	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 24, 2020
<u>/s/ Robin R. Howell</u> ROBIN R. HOWELL	Director	March 24, 2020
<u>/s/ Mark E. Preisinger</u> MARK E. PREISINGER	Director	March 24, 2020
<u>/s/ Joseph M. Scheerer</u> JOSEPH M. SCHEERER	Director	March 24, 2020
<u>/s/ Scott G. Thompson</u> SCOTT G. THOMPSON	Director	March 24, 2020
<u>/s/ D. Keehln Wheeler</u> D. KEEHLN WHEELER	Director	March 24, 2020

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
ATLANTIC AMERICAN CORPORATION
(Parent Company Only)
BALANCE SHEETS
ASSETS

	December 31,	
	2019	2018
	(In thousands)	
Cash and cash equivalents	\$ 2,068	\$ 3,142
Investments	3,267	14,154
Investment in subsidiaries	142,707	108,756
Investments in unconsolidated trusts	1,238	1,238
Deferred tax asset, net	—	3,524
Income taxes receivable from subsidiaries	2,304	2,856
Other assets	5,126	3,311
Total assets	<u>\$ 156,710</u>	<u>\$ 136,981</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Deferred tax liability, net	\$ 346	\$ —
Other payables	4,232	1,871
Junior subordinated debentures	33,738	33,738
Total liabilities	38,316	35,609
Shareholders' equity	118,394	101,372
Total liabilities and shareholders' equity	<u>\$ 156,710</u>	<u>\$ 136,981</u>

See accompanying report of independent registered public accounting firm.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT**ATLANTIC AMERICAN CORPORATION
(Parent Company Only)****STATEMENTS OF OPERATIONS**

	Year Ended December 31,	
	2019	2018
	(In thousands)	
REVENUE		
Fee income from subsidiaries	\$ 7,210	\$ 7,995
Distributed earnings from subsidiaries	4,800	4,800
Unrealized losses on equity securities, net	2,976	(1,460)
Other	1,190	752
Total revenue	16,176	12,087
GENERAL AND ADMINISTRATIVE EXPENSES	11,731	12,764
INTEREST EXPENSE	2,130	2,037
	2,315	(2,714)
INCOME TAX BENEFIT⁽¹⁾	(2,035)	(3,544)
	4,350	830
EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARIES, NET	(4,736)	(1,534)
NET LOSS	<u>\$ (386)</u>	<u>\$ (704)</u>

⁽¹⁾ Under the terms of a tax-sharing agreement, income tax provisions for the subsidiary companies are computed on a separate company basis. Accordingly, the Company's income tax benefit results from the utilization of the Parent's separate return loss to reduce the consolidated taxable income of the Company.

See accompanying report of independent registered public accounting firm.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT**ATLANTIC AMERICAN CORPORATION**
(Parent Company Only)**STATEMENTS OF CASH FLOWS**

	Year Ended December 31,	
	2019	2018
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (386)	\$ (704)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Realized investment gains, net	(1,120)	(272)
Unrealized (gains) losses on equity securities, net	(2,976)	1,460
Depreciation and amortization	552	715
Compensation expense related to share awards	353	244
Distributions received from equity method investees	51	183
Equity in undistributed earnings of consolidated subsidiaries	4,736	1,534
Decrease in intercompany taxes	551	24
Deferred income tax benefit	(913)	(2,236)
Increase (decrease) in accounts payable and accrued expenses	2,360	(214)
Other, net	(2,314)	(190)
Net cash provided by operating activities	894	544
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investments sold, called or matured	3,574	675
Investments purchased	(1,060)	—
Capital contribution to subsidiaries	(3,500)	(6,000)
Additions to property and equipment	(44)	(219)
Net cash used in investing activities	(1,030)	(5,544)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends on Series D preferred stock	(399)	(399)
Payment of dividends on common stock	(403)	(407)
Proceeds from shares issued under stock plans	27	36
Treasury stock acquired — share repurchase authorization	(71)	(597)
Treasury stock acquired — net employee share-based compensation	(92)	(223)
Net cash used in financing activities	(938)	(1,590)
Net decrease in cash	(1,074)	(6,590)
Cash and cash equivalents at beginning of year	3,142	9,732
Cash and cash equivalents at end of year	\$ 2,068	\$ 3,142
Supplemental disclosure:		
Cash paid for interest	\$ 2,155	\$ 1,996
Cash paid for income taxes	\$ 1,662	\$ 2,107
Intercompany tax settlement from subsidiaries	\$ 3,335	\$ 3,439

See accompanying report of independent registered public accounting firm.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION

Segment	Deferred Acquisition Costs	Future Policy Benefits, Losses, Claims and Loss Reserves	Unearned Premiums	Other Policy Claims and Benefits Payable
(In thousands)				
December 31, 2019:				
Bankers Fidelity	\$ 36,882	\$ 121,657	\$ 4,606	\$ 1,933
American Southern	1,979	52,281	21,429	—
	<u>\$ 38,861</u>	<u>\$ 173,938⁽¹⁾</u>	<u>\$ 26,035</u>	<u>\$ 1,933</u>
December 31, 2018:				
Bankers Fidelity	\$ 35,047	\$ 113,515	\$ 4,712	\$ 1,973
American Southern	2,047	49,354	19,494	—
	<u>\$ 37,094</u>	<u>\$ 162,869⁽²⁾</u>	<u>\$ 24,206</u>	<u>\$ 1,973</u>

⁽¹⁾ Includes future policy benefits of \$92,490 and losses and claims of \$81,448.

⁽²⁾ Includes future policy benefits of \$90,257 and losses and claims of \$72,612.

See accompanying report of independent registered public accounting firm.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION

Segment	Premium Revenue	Net Investment Income	Benefits, Claims, Losses and Settlement Expenses	Amortization of Deferred Acquisition Costs	Other Operating Expenses	Casualty Premiums Written
(In thousands)						
December 31, 2019:						
Bankers Fidelity	\$ 123,245	\$ 5,317	\$ 99,684	\$ 8,459	\$ 27,114	\$ —
American Southern	58,680	3,689	39,541	8,829	8,303	60,328
Corporate & other	—	(27)	—	—	6,656	—
	<u>\$ 181,925</u>	<u>\$ 8,979</u>	<u>\$ 139,225</u>	<u>\$ 17,288</u>	<u>\$ 42,073</u>	<u>\$ 60,328</u>
December 31, 2018:						
Bankers Fidelity	\$ 119,124	\$ 5,382	\$ 93,821	\$ 9,690	\$ 22,598	\$ —
American Southern	53,807	3,783	38,829	7,921	6,843	54,410
Corporate & other	—	384	—	—	6,822	—
	<u>\$ 172,931</u>	<u>\$ 9,549</u>	<u>\$ 132,650</u>	<u>\$ 17,611</u>	<u>\$ 36,263</u>	<u>\$ 54,410</u>

See accompanying report of independent registered public accounting firm.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
REINSURANCE INFORMATION

	<u>Direct Amount</u>	<u>Ceded To Other Companies</u>	<u>Assumed From Other Companies</u>	<u>Net Amounts</u>	<u>Percentage of Amount Assumed To Net</u>
(Dollars in thousands)					
Year ended December 31, 2019:					
Life insurance in force	\$ 257,731	\$ (11,449)	\$ —	\$ 246,282	
Premiums —					
Bankers Fidelity	\$ 195,481	\$ (72,261)	\$ 25	\$ 123,245	0.0%
American Southern	41,880	(5,520)	22,320	58,680	39.6%
Total premiums	<u>\$ 237,361</u>	<u>\$ (77,781)</u>	<u>\$ 22,345</u>	<u>\$ 181,925</u>	<u>12.8%</u>
Year ended December 31, 2018:					
Life insurance in force	\$ 232,311	\$ (12,263)	\$ —	\$ 220,048	
Premiums —					
Bankers Fidelity	\$ 180,552	\$ (61,459)	\$ 31	\$ 119,124	0.0%
American Southern	39,233	(5,075)	19,649	53,807	36.5%
Total premiums	<u>\$ 219,785</u>	<u>\$ (66,534)</u>	<u>\$ 19,680</u>	<u>\$ 172,931</u>	<u>11.4%</u>

See accompanying report of independent registered public accounting firm.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL INFORMATION CONCERNING
PROPERTY-CASUALTY INSURANCE OPERATIONS

Year Ended	Deferred Policy Acquisition Costs	Reserves	Unearned Premiums	Earned Premiums	Net Investment Income	Claims and Claim Adjustment Expenses Incurred Related To		Amortization of Deferred Acquisition Costs	Paid Claims and Claim Adjustment Expenses	Premiums Written
						Current Year	Prior Years			
						(In thousands)				
December 31, 2019	\$ 1,979	\$ 52,281	\$ 21,429	\$ 58,680	\$ 3,689	\$ 40,361	\$(820)	\$ 8,829	\$ 37,905	\$ 60,328
December 31, 2018	\$ 2,047	\$ 49,354	\$ 19,494	\$ 53,807	\$ 3,783	\$ 39,735	\$(906)	\$ 7,921	\$ 36,680	\$ 54,410

See accompanying report of independent registered public accounting firm.

**DESCRIPTION OF THE REGISTRANT'S COMMON STOCK
REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

The following description of the common stock of Atlantic American Corporation (the “Company,” “we,” or “our,”) is a summary and does not purport to be complete. This summary is subject to and qualified in its entirety by reference to the Business Corporation Code of the State of Georgia (the “GBCC”) the complete text of the Company’s Restated Articles of Incorporation (the “Charter”), and Restated Bylaws (the “Bylaws”), which are filed as Exhibits 3.1 and 3.2, respectively, to our Annual Report on Form 10-K of which this Exhibit 4.1 is a part. We encourage you to read those materials carefully.

Authorized Capital Stock

The Company has one class of securities, our common stock, par value \$1.00 per share, registered under Section 12 of the Securities Exchange Act of 1934, as amended. Our authorized capital stock consists of 50,000,000 shares of common stock and 4,000,000 shares of preferred stock, par value \$1.00 per share, of which (i) 30,000 shares of preferred stock have been designated as Series A Convertible Preferred Stock; (ii) 134,000 shares of preferred stock have been designated as Series B Preferred Stock; (iii) 100,000 shares of preferred stock have been designated as Series C Preferred Stock; and (iv) 10,000 shares of preferred stock have been designated as Series D Preferred Stock.

Common Stock

Voting rights. Holders of our common stock are entitled to one vote for each share on all matters voted on by our stockholders. The Bylaws provide that directors are elected by the vote of the plurality of the votes cast with respect to that director’s election at any meeting for the election of directors at which a quorum is present. All directors are elected at each annual meeting of stockholders for a one-year term and until his or her successor shall have been duly elected and qualified, unless he or she shall cease to serve by reason of death, resignation or other cause. Holders of our common stock do not have cumulative voting rights in the election of directors.

For all other matters, the affirmative vote of a majority of the votes present at the meeting of stockholders and entitled to vote on the matter presented shall be the act of the stockholders.

Subscription, Redemption or Conversion Privileges. Holders of our common stock do not have any subscription, redemption or conversion privileges. Holders of our common stock do not have any pre-emptive right to purchase, subscribe for or otherwise acquire stock of any class of the Company or any security convertible into, or any warrant, option or right to purchase, subscribe for or otherwise acquire stock of any class of the Company, whether now or hereafter authorized. All outstanding shares of common stock are validly issued, fully paid and non-assessable.

Dividends. Subject to the preferences or other rights of any preferred stock that may be issued from time to time, holders of our common stock are entitled to participate ratably in dividends on our common stock as declared by our board of directors (our “Board”).

Liquidation. Holders of our common stock are entitled to share ratably in all assets available for distribution to stockholders in the event of our liquidation or dissolution, subject to distribution of any accrued but unpaid dividends and the preferential amount, if any, to be distributed to holders of our preferred stock.

Stock Exchange Listing

Our common stock is listed on the Nasdaq Stock Market under the symbol “AAME.”

Certain Factors Affecting Control of the Company

General. Certain provisions of the Charter, the Bylaws and the GBCC described in this section may delay or make more difficult acquisitions or changes of control of the Company not approved by our Board. In addition, our officers, directors and their families, directly and indirectly, own approximately 75% of the outstanding common stock of the Company. Accordingly, on significantly all matters requiring a majority or greater shareholder vote, our officers, directors and their families effectively control the vote. Such ownership effectively precludes any other shareholder from acquiring any number of shares in an attempt to exercise any degree of control over the Company. Together, the provisions discussed below and the concentration of ownership of our common stock could have the effect of discouraging third parties from making proposals involving an acquisition or change of control of the Company, although these kinds of proposals, if made, might be considered desirable by individual stockholders. These provisions may also have the effect of making it more difficult for third parties to cause the replacement of our current management without the concurrence of our Board.

Number of Directors; Removal; Vacancies. The Bylaws provide that the number of directors shall be not less than five and not more than fifteen, with the exact number to be fixed from time to time by our board of directors. The Bylaws also provide that newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board resulting from death, resignation or other cause may be filled only by a majority vote of the directors then in office, though less than a quorum, or by a sole remaining director. This provision could have the effect of discouraging a potential acquiror from attempting to obtain control of the Company.

Stockholder Action by Written Consent; Special Meetings. The Bylaws provide that stockholder action can be taken at an annual or special meeting of stockholders. Stockholders can also be taken by unanimous written consent.

The Bylaws provide that special meetings of the stockholders may be called by the chairman of the Board, the Board or the president of the Company or upon the written request of stockholders representing in the aggregate at least 25% of the outstanding voting stock of the Company entitled to vote at an election of directors. Due to the substantial ownership stake our directors and officers hold in the Company, these provisions could delay a stockholder vote on certain matters, such as business combinations and removal of directors, and could have the effect of discouraging a potential acquiror from making a tender offer.

Amendment of the Certificate of Incorporation. Any proposal to amend, alter, change or repeal any provision of the Charter requires, except in special circumstances, a recommendation by our Board and the affirmative vote of a majority vote of the voting power of all of the shares of our capital stock entitled to vote on such change.

Preferred Stock and Additional Common Stock. Under the Charter, our Board has the authority to provide by resolution for the issuance of shares of one or more classes or series of preferred stock. Our Board is authorized to fix by resolution the terms and conditions of each such other class or series. The authorized shares of our preferred stock, as well as authorized but unissued shares of our common stock, are available for issuance without further action by our stockholders, unless stockholder action is required by applicable law or the rules of Nasdaq or any other stock exchange on which any class or series of our stock may then be listed. These provisions give our Board the power to approve the issuance of a class or series of our preferred capital stock, or additional shares of our common stock, that could, depending on the terms of the stock, either impede or facilitate the completion of a merger, tender offer or other takeover attempt. For example, the issuance of new shares might impede a business combination if the terms of those shares include voting rights which would enable a holder to block business combinations. Alternatively, the issuance of new shares might facilitate a business combination if those shares have general voting rights sufficient to cause an applicable percentage vote requirement to be satisfied.

Georgia Business Combination Statute. The Company is subject to the “business combination” provisions of Section 203 of the GBCC. In general, such provisions prohibit a Georgia corporation from engaging in various “business combination” transactions with any interested stockholder for a period of five years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. The statute could prohibit or delay mergers or other takeover or change in control attempts with respect to the Company and, accordingly, may discourage attempts to acquire the Company even though such a transaction may offer the Company’s shareowners the opportunity to sell their stock at a price above the prevailing market price.

Exclusive Forum

Our Bylaws provide that, unless we consent in writing to the selection of another forum, a state or federal court located within the State of Georgia shall be the exclusive forum for (i) any derivative action or proceeding brought on behalf of the Company, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the Company to the Company or the Company’s stockholders, (iii) any action asserting a claim arising pursuant to any provision of the GBCC, the Charter or the Bylaws, or (iv) any action asserting a claim governed by the internal affairs doctrine. Although we believe this provision benefits us by providing increased consistency in the application of Georgia law in the types of lawsuits to which it applies, the provision may have the effect of discouraging lawsuits against our directors and officers. The enforceability of similar choice of forum provisions in other companies’ bylaws and certificates of incorporation has been challenged in legal proceedings, and it is possible that, in connection with any action, a court could find the choice of forum provisions contained in our Bylaws to be inapplicable or unenforceable in such action.

**CONSENT OF DIXON HUGHES GOODMAN LLP
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders
Atlantic American Corporation
Atlanta, Georgia

We consent to the incorporation by reference in the registration statements (Nos. 333-183207 and 333-183210) on Form S-8 of Atlantic American Corporation of our report dated March 24, 2020, with respect to the consolidated financial statements and schedules of Atlantic American Corporation as of and for the year ended December 31, 2019, which report appears in Atlantic American Corporation's Annual Report on Form 10-K.

/s/ Dixon Hughes Goodman LLP
Atlanta, Georgia
March 24, 2020

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Hilton H. Howell, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Atlantic American Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 24, 2020

/s/ Hilton H. Howell, Jr.

Hilton H. Howell, Jr.
President and Chief Executive Officer

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, J. Ross Franklin, certify that:

1. I have reviewed this annual report on Form 10-K of Atlantic American Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 24, 2020

/s/ J. Ross Franklin

J. Ross Franklin
Vice President and
Chief Financial Officer

Certifications Pursuant to §906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Annual Report on Form 10-K of Atlantic American Corporation (the “Company”) for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies, that, to such officer’s knowledge:

- (1) The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: March 24, 2020

/s/ Hilton H. Howell, Jr.

Hilton H. Howell, Jr.

President and Chief Executive Officer

Date: March 24, 2020

/s/ J. Ross Franklin

J. Ross Franklin

Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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, 2020

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-3722

ATLANTIC AMERICAN CORPORATION

(Exact name of registrant as specified in its charter)

Georgia
(State or other jurisdiction of incorporation or organization)
4370 Peachtree Road, N.E.,
Atlanta, Georgia
(Address of principal executive offices)

58-1027114
(I.R.S. Employer Identification No.)

30319
(Zip Code)

(Registrant's telephone number, including area code) **(404) 266-5500**
Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$1.00 per share	AAME	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 definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2020, the last business day of the registrant's most recently completed second fiscal quarter, was \$6,720,805. For purposes hereof, beneficial ownership is

determined under rules adopted pursuant to Section 13 of the Securities Exchange Act of 1934, and the foregoing excludes value ascribed to common stock that may be deemed beneficially owned by the directors and executive officers, and 10% or greater stockholders, of the registrant, some of whom may not be deemed to be affiliates upon judicial determination. On March 10, 2021 there were 20,415,243 shares of the registrant's common stock, par value \$1.00 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2021 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year end, have been incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

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PART I

Item 1. Business

The Company

Atlantic American Corporation, a Georgia corporation incorporated in 1968 (the “Parent” or “Company”), is a holding company that operates through its subsidiaries in well-defined specialty markets within the life and health and property and casualty insurance industries. The Parent’s principal operating subsidiaries are American Southern Insurance Company and American Safety Insurance Company (together known as “American Southern”) within the property and casualty insurance industry and Bankers Fidelity Life Insurance Company and Bankers Fidelity Assurance Company (together known as “Bankers Fidelity”) within the life and health insurance industry. Each of American Southern and Bankers Fidelity is managed separately based upon the type of products it offers, and is evaluated on its individual performance. The Company’s strategy is to focus on well-defined geographic, demographic and/or product niches within the insurance marketplace. Each of American Southern and Bankers Fidelity operates with relative autonomy, which structure is designed to allow for quick reaction to market opportunities.

The Parent has no significant business operations of its own and relies on fees, dividends and other distributions from its operating subsidiaries as the principal source of cash flow to meet its obligations. Additional information regarding the cash flow and liquidity needs of the Parent can be found in the Liquidity and Capital Resources section of Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Property and Casualty Operations

American Southern comprises the Company’s property and casualty operations and its primary product lines are as follows:

Business Automobile Insurance policies provide bodily injury and/or property damage liability coverage, uninsured motorist coverage and physical damage coverage for commercial accounts.

General Liability Insurance policies cover bodily injury and property damage liability for both premises and completed operations exposures for general classes of business.

Surety Bonds are contracts under which one party, the insurance company issuing the surety bond, guarantees to a third party that the primary party will fulfill an obligation in accordance with a contractual agreement. This obligation may involve meeting a contractual commitment, paying a debt or performing certain duties.

American Southern provides tailored business automobile insurance coverage, on a multi-year contract basis, to state governments, local municipalities and other large motor pools and fleets (“block accounts”) that can be specifically rated and underwritten. The size of the block accounts insured by American Southern are generally such that individual class experience can be determined, which allows for customized policy terms and rates. American Southern is licensed to do business in 32 states and the District of Columbia. While the majority of American Southern’s premiums are derived from its automobile lines of business, American Southern also offers inland marine and general liability coverages. Additionally, American Southern directly provides surety bond coverage for subdivision construction, as well as performance and payment bonds.

The following table summarizes, for the periods indicated, the allocation of American Southern’s net earned premiums from each of its principal product lines:

	Year Ended December 31,	
	2020	2019
	(In thousands)	
Automobile liability	\$ 30,312	\$ 30,649
Automobile physical damage	18,730	15,309
General liability	3,891	3,309
Surety	5,857	6,319
Other lines	3,582	3,094
Total	<u>\$ 62,372</u>	<u>\$ 58,680</u>

Life and Health Operations

Bankers Fidelity comprises the life and health operations of the Company and offers a variety of life and supplemental health products. Products offered by Bankers Fidelity include ordinary and term life insurance, Medicare supplement and other accident and health insurance products.

Life Insurance products include non-participating term, individual and group whole life insurance policies with a variety of riders and options. Policy premiums are dependent upon a number of factors, including issue age, level of coverage and selected riders or options.

Medicare Supplement Insurance includes 8 of the 10 standardized Medicare supplement policies created under the Medicare Improvements for Patients and Providers Act of 2008 (“MIPPA”), which are designed to provide insurance coverage for certain expenses not covered by the Medicare program, including copayments and deductibles.

Other Accident and Health Insurance coverages include several individual and group policies providing for the payment of standard benefits in connection with the treatment of diagnosed cancer and other critical illnesses, as well as a number of other policies providing short-term nursing facility care, accident expense, hospital indemnity and disability coverages.

Health insurance products, primarily Medicare supplement insurance, accounted for 92% of Bankers Fidelity’s net earned premiums in 2020 while life insurance, including both whole and term life insurance policies, accounted for the balance. In terms of the number of policies written in 2020, 83% were health insurance policies and 17% were life insurance policies.

The following table summarizes, for the periods indicated, the allocation of Bankers Fidelity’s net earned premiums from each of its principal product lines followed by a brief description of the principal products:

	Year Ended December 31,	
	2020	2019
	(In thousands)	
Life insurance	\$ 9,270	\$ 8,427
Medicare supplement	102,680	107,001
Other accident and health	9,217	7,817
Total health insurance	111,897	114,818
Total	\$ 121,167	\$ 123,245

Marketing

Property and Casualty Operations

A portion of American Southern’s business is marketed through a small number of specialized, experienced independent agents. American Southern’s agent selection process is actively managed by internal marketing personnel with oversight from management. Senior management carefully reviews all new programs prior to acceptance. Most of American Southern’s agents are paid an up-front commission with the potential for additional commissions by participating in a profit sharing arrangement that is directly linked to the profitability of the underlying business. American Southern also solicits business from governmental entities. As an experienced writer of insurance policies for certain governmental programs, the company actively pursues this market on a direct basis. Much of this business is priced by means of competitive bid situations. As a result, there can be no assurance with respect to the ultimate profitability or ability of the Company to obtain or retain such business at the time of a specific contract renewal.

Life and Health Operations

Bankers Fidelity acquires its clientele through three distribution channels spread across 46 different states and two business divisions, all of which utilize commissioned, independent agents. The three distribution channels include traditional independent agents, brokers typically interested in a specific product of Bankers Fidelity and brokers who focus on sales within the group/employer benefits arena of BankersWorksite, all of which are responsible for their own marketing and sales activities. Contracting as independent agents enables Bankers Fidelity to effectively expand or contract its sales force without incurring significant expense.

Bankers Fidelity had 4,198 licensed agents contracted in both senior market and worksite divisions as of December 31, 2020. During 2020, approximately 786 of these licensed agents wrote policies on behalf of Bankers Fidelity.

Bankers Fidelity’s marketing and distribution strategy revolves around five pillars: Diversification, Differentiation, Quality, Retention and Profitability.

Diversification. Through unique product offerings such as the Vantage Recovery®, short-term care product and a group whole life product featuring a chronic illness rider, the Company is able to offer its distributors an array of products to sell that stand out from the competition. As the Company continues to expand its geographical footprint with agents and products, one of its main objectives is to have a healthy mix of all of its product lines nationwide.

Differentiation. Bankers Fidelity prides itself on the quality of customer service it offers to policyholders and agents. A dedicated agent support team is available to the field to support them on administration, underwriting, sales training, product questions and a plethora of other services which differentiates the Company from other carriers. Additionally, a customer loyalty team is available solely to serve insureds for any of their insurance needs. Bankers Fidelity prides itself on being agile, which we believe differentiates us from larger carriers and helps the Company to quickly execute senior management's initiatives.

Quality. Bankers Fidelity is focused on being a niche carrier that delivers superior service, quality products and innovative solutions. Sophisticated technology and reporting allows the home office teams to work with the sales force to deliver a tailored experience and phenomenal customer service.

Retention. Through seasonal campaigns and customer outreach, the Company is focused on client retention and servicing its policyholders through all stages in their lives. By providing its agents with an innovative product portfolio, the Company further promotes client retention by empowering its agents to continually meet the needs of our policyholders.

Profitability. In an effort to be sustainable in the marketplace as a long-term partner, senior management is focused on diversification, differentiation, quality and retention to achieve profitability.

Underwriting

Property and Casualty Operations

American Southern specializes in underwriting various risks that are sufficiently large enough to establish separate class experience, relying upon the underwriting expertise of its agents.

During the course of the policy life, extensive use is made of risk management representatives to assist commercial underwriters in identifying and correcting potential loss exposures and to physically inspect new accounts. The underwriting results from each insured are reviewed on an individual basis periodically. If results are below expectations, management takes corrective action, which may include adjusting rates, revising underwriting standards, adjusting commissions paid to agents, and/or altering or declining to renew accounts at expiration.

Life and Health Operations

Bankers Fidelity issues a variety of products that span from the worksite markets to the senior markets for both life and health insurance. Products offered by Bankers Fidelity include life insurance, typically with small face amounts, Medicare supplement and other accident and health insurance. Bankers Fidelity also provides an array of worksite products such as accident, cancer, critical illness, hospital indemnity and life insurance that is offered to employers who are looking to provide coverage for their employees and have the related premiums deducted through payroll deductions.

The majority of the products are underwritten on a non-medical basis using a simplified issue approach by which an application containing a variety of health related questions is submitted. Applications for insurance are reviewed to determine the face amount, age, medical history and any other necessary information. Bankers Fidelity utilizes information obtained directly from the insured, the medical claims data, prescription utilization reports as well as telephone interviews to determine whether an applicant meets the Company's underwriting criteria. Bankers Fidelity may also utilize medical records and investigative services to supplement and substantiate information, as necessary.

Policyholder and Claims Services

The Company believes that prompt, efficient policyholder and claims services are essential to its continued success in marketing its insurance products (see "Competition"). Additionally, the Company believes that its insureds are particularly sensitive to claims processing time and to the accessibility of qualified staff to answer inquiries. Accordingly, the Company's policyholder and claims services seek to offer expeditious disposition of service requests by providing toll-free access for all customers, 24-hour claim reporting services, and direct computer links with some of its largest accounts. The Company also utilizes an automatic call distribution system to ensure that inbound calls to customer service support groups are processed efficiently. Operational data generated from this system allows management to further refine ongoing client service programs and service representative training modules.

Property and Casualty Operations

American Southern controls its claims costs by utilizing an in-house staff of claims supervisors to investigate, verify, negotiate and settle claims. Upon notification of an occurrence purportedly giving rise to a claim, a claim file is established. The claims department then conducts a preliminary investigation, determines whether an insurable event has occurred and, if so, updates the file for the findings and any required reserve adjustments. Independent adjusters and appraisers are frequently utilized to service claims which require on-site inspections.

Life and Health Operations

Insureds may obtain claim forms by calling the claims department customer service group or through Bankers Fidelity's website. Insureds covered under a group policy may also file a claim directly on the Company's website. To shorten claim processing time, a letter detailing all supporting documents that are required to complete a claim for a particular policy is sent to the customer along with the correct claim form. With respect to life policies, the claim is entered into Bankers Fidelity's claims system when the proper documentation is received. Properly documented claims are generally paid within five business days of receipt. With regard to Medicare supplement policies, the claim is either directly billed to Bankers Fidelity by the provider or sent electronically through a Medicare clearing house.

Reserves

Reserves are set by line of business within each of the subsidiaries. At December 31, 2020, approximately 69% of the losses and claims reserves related to property and casualty and approximately 31% related to life and health. The Company's property and casualty operations incur losses which may take extended periods of time to evaluate and settle. Issues with respect to legal liability, actual loss quantification, legal discovery and ultimate subrogation, among other factors, may influence the initial and subsequent estimates of loss. In the property and casualty operations, the Company's general practice is to reserve at the higher end of the determined reasonable range of loss if no other value within the range is determined to be more probable. The Company's life and health operations generally incur losses which are more readily quantified. Medical claims received are recorded in case reserves based on contractual terms using the submitted billings as a basis for determination. Life claims are recorded based on contract value at the time of notification to the Company; offset by policy reserves related to such contracts previously established. Individual case reserves are established by a claims processor on each individual claim and are periodically reviewed and adjusted as new information becomes known during the course of handling a claim. Regular internal periodic reviews are also performed by management to ensure that loss reserves are established and revised timely relative to the receipt of new or additional information. Lines of business for which loss data (e.g. paid losses and case reserves) emerge over a long period of time are referred to as long-tail lines of business. Lines of business for which loss data emerge more quickly are referred to as short-tail lines of business. The Company's long-tail line of business generally consists of its general liability coverage while the short-tail lines of business generally consist of property and automobile coverages.

The Company's actuaries regularly review reserves for both current and prior accident years using the most current claims data. These reviews incorporate a variety of actuarial methods (discussed in Critical Accounting Policies) and judgments and involve a disciplined analysis. For most lines of business, certain actuarial methods and specific assumptions are deemed more appropriate based on the current circumstances affecting that line of business. These selections incorporate input from claims personnel and operating management on reported loss cost trends and other factors that could affect the reserve estimates.

For long-tail lines of business, the emergence of paid losses and case reserves is less credible in the early periods, and accordingly may not be indicative of ultimate losses. For these lines, methods which incorporate a development pattern assumption are given less weight in calculating incurred but not reported ("IBNR") reserves for the early periods of loss emergence because such a low percentage of ultimate losses are reported in that time frame. Accordingly, for any given accident year, the rate at which losses on long-tail lines of business emerge in the early periods is generally not as reliable an indication of ultimate losses as it would be for shorter-tail lines of business. The estimation of reserves for these lines of business in the early periods of loss emergence is therefore largely influenced by statistical analyses and application of prior accident years' loss ratios, after considering changes to earned pricing, loss costs, mix of business, ceded reinsurance and other factors that are expected to affect the estimated ultimate losses. For later periods of loss emergence, methods which incorporate a development pattern assumption are given more weight in estimating ultimate losses. For short-tail lines of business, the emergence of paid loss and case reserves is more credible in the early periods and is more likely to be indicative of ultimate losses. The method used to set reserves for these lines of business is based upon utilization of a historical development pattern for reported losses. IBNR reserves for the current year are set as the difference between the estimated fully developed ultimate losses for each year, less the established, related case reserves and cumulative related payments. IBNR reserves for prior accident years are similarly determined, again relying on an indicated, historical development pattern for reported losses.

Based on the results of regular reserve estimate reviews, the Company determines the appropriate reserve adjustment, if any, to record in each period. If necessary, recorded reserve estimates are changed after consideration of numerous factors, including, but not limited to, the magnitude of the difference between the actuarial indication and the recorded reserves, improvement or deterioration of actuarial indication in the period, the maturity of the accident year, trends observed over the recent past and the level of volatility within a particular line of business. In general, changes are made more quickly to recognize changes in estimates to ultimate losses in mature accident years and less volatile lines of business.

Estimating case reserves and ultimate losses involves various considerations which differ according to the line of business. In addition, changes in legislative and regulatory environments may impact loss estimates. General liability claims may have a long pattern of loss emergence. Given the broad nature of potential general liability coverages, investigative time periods may be extended and questions of coverage may exist. Such uncertainties create greater imprecision in estimating required levels of loss reserves. The property and automobile lines of business generally have less variable reserve estimates than other lines. This is largely due to the coverages having relatively shorter periods of loss emergence. Estimates, however, can still vary due to a number of factors, including interpretations of frequency and severity trends. Severity trends can be impacted by changes in internal claim handling and reserving practices in addition to changes in the external environment. These changes in claim

practices increase the uncertainty in the interpretation of case reserve data, which increases the uncertainty in recorded reserve levels.

The Company's policy is to record reserves for losses and claims in amounts which approximate actuarial best estimates of ultimate values. Actuarial best estimates do not necessarily represent the midpoint value determined using the various actuarial methods; however, such estimates will fall between the estimated low and high end reserve values. The range of estimates developed in connection with the December 31, 2020 actuarial review indicated that reserves could be as much as 10.9% lower or as much as 2.0% higher. In the opinion of management, recorded reserves represent the best estimate of outstanding losses, although significant judgments are made in the derivation of reserve estimates and revisions to such estimates are expected to be made in future periods. Any such revisions could be material, and may materially adversely affect the Company's financial condition and results of operations in any future period.

Property and Casualty Operations

American Southern maintains loss reserves representing estimates of amounts necessary for payment of losses and loss adjustment expense ("LAE"), and which are not discounted. IBNR reserves are also maintained for future development. These loss reserves are estimates, based on known facts and circumstances at a given date, of amounts the Company expects to pay on incurred claims. All balances are reviewed periodically by the Company's independent consulting actuary. Reserves for LAE are intended to cover the ultimate costs of settling claims, including investigation and defense of any lawsuits resulting from such claims. Loss reserves for reported claims are based on a case-by-case evaluation of the type of claim involved, the circumstances surrounding the claim, and the policy provisions relating to the type of loss along with anticipated future development. The LAE for claims reported and claims not reported is based on historical statistical data and anticipated future development. Inflation and other factors which may affect claim payments are implicitly reflected in the reserving process through analysis and consideration of cost trends and reviews of historical reserve results.

American Southern establishes reserves for claims based upon: (a) management's estimate of ultimate liability and claims adjusters' evaluations of unpaid claims reported prior to the close of the accounting period, (b) estimates of IBNR claims based on past experience, and (c) estimates of LAE. If no value is determined to be more probable in estimating a loss after considering all factors, the Company's general practice is to reserve at the higher end of the determined reasonable range of loss. The estimated liability is periodically reviewed and updated, and changes to the estimated liability are recorded in the statement of operations in the period in which such changes become known.

Life and Health Operations

Bankers Fidelity establishes liabilities for future policy benefits to meet projected future obligations under outstanding policies. These reserves are calculated to satisfy policy and contract obligations as they mature. The amount of reserves for insurance policies is calculated using assumptions for interest rates, mortality and morbidity rates, expenses, and withdrawals. Reserves are adjusted periodically based on published actuarial tables with modifications to reflect actual experience. The use of significantly different assumptions, or actual results that differ significantly from our estimates, could materially adversely affect our liquidity, results of operations or financial condition.

See Note 5 of Notes to Consolidated Financial Statements for more information on insurance reserves and policyholder funds.

Reinsurance

The Company's insurance subsidiaries from time to time purchase reinsurance from unaffiliated insurers and reinsurers to reduce their potential liability on individual risks and to protect against catastrophic losses. In a reinsurance transaction, an insurance company transfers, or "cedes," a portion or all of its exposure on insurance policies to a reinsurer. The reinsurer assumes the exposure in return for a portion of the premiums. The ceding of insurance does not legally discharge the insurer from primary liability for the full amount of the policies written by it, and the ceding company will incur a loss if the reinsurer fails to meet its obligations under the reinsurance agreement.

Property and Casualty Operations

American Southern's basic reinsurance treaties generally cover all claims in excess of specified per occurrence limitations. Limits per occurrence within the reinsurance treaties are as follows: Inland marine and commercial automobile physical damage - \$250,000 excess of \$100,000 retention; and automobile liability and general liability - excess coverage of \$2.0 million less retentions that may vary from \$100,000 to \$300,000 depending on the account. American Southern maintains a property catastrophe treaty with a \$5.7 million limit excess of \$300,000 retention. American Southern also issues individual surety bonds with face amounts generally up to \$1.5 million, and limited to \$5.0 million in aggregate per account, that are not reinsured.

Life and Health Operations

Bankers Fidelity has entered into reinsurance contracts ceding the excess of its life retention. Maximum retention by Bankers Fidelity on any one individual in the case of life insurance policies is \$100,000. At December 31, 2020, \$11.0 million of the \$294.4 million of life insurance in force at Bankers Fidelity was reinsured under a mix of coinsurance and yearly renewable term agreements. Certain prior year reinsurance agreements also remain in force although they no longer provide reinsurance for new business.

Bankers Fidelity has also entered into a reinsurance contract ceding excess new Medicare supplement business to General Re Life Corporation. Ceding thresholds are set annually. During 2020, the liability of the reinsurer was 50% of all new Medicare supplement business issued by the Company on amounts up to a maximum retention of \$15.0 million of annualized premium. Accordingly, \$3.3 million of the Company's \$6.7 million of new annualized Medicare supplement premium was ceded.

Competition

Competition for insurance products is based on many factors including premiums charged, terms and conditions of coverage, customer service, financial ratings assigned by independent rating agencies, claims handling, consumer recognition and reputation, perceived financial strength and the experience of the organization in the line of business being written.

Property and Casualty Operations

The businesses in which American Southern engages are highly competitive. The principal areas of competition are pricing and service. Many competing property and casualty companies have been in business longer than American Southern, offer more diversified lines of insurance and have substantially greater financial resources. Management believes, however, that the policies it sells are competitive with those providing similar benefits offered by other insurers doing business in the states in which American Southern operates. American Southern strives to develop strong relationships with its agents and, consequently, believes it is well positioned for new opportunities and programs with those agents.

Life and Health Operations

The life and health insurance business remains highly competitive and includes a large number of insurance companies, many of which are new entrants to the business of providing Medicare supplement and other accident and health insurance products. Bankers Fidelity has established itself as a trusted carrier of choice for its customers providing quality and sustainability for nearly 65 years.

In order to compete, Bankers Fidelity actively seeks opportunities in niche markets, developing long-term relationships with a select number of independent marketing organizations. Additionally, Bankers Fidelity actively promotes BankersWorksite, the group benefits division, as well as selective association partnerships. It competes with other insurers to attract and retain the allegiance of its independent agents through commission and sales incentive arrangements, accessibility and marketing assistance, lead programs, reputation and market expertise. Bankers Fidelity successfully competes in its chosen markets by establishing relationships with independent agents and providing proprietary marketing initiatives as well as providing outstanding service to policyholders.

Ratings

Ratings are important measures within the insurance industry, and higher ratings are expected to have a favorable impact on the ability of a company to compete in the marketplace. Ratings of insurance companies are not designed for investors and do not constitute recommendations to buy, sell, or hold any security.

Each year A.M. Best Company, Inc. ("A.M. Best") publishes Best's Insurance Reports, which includes assessments and ratings of all insurance companies. A.M. Best's financial strength ratings, which may be revised or revoked at any time, follow a graduated scale of rating categories and notches ranging from A++ (Superior) to F (in liquidation). A.M. Best's ratings are based on a detailed analysis of the statutory financial condition and operations of an insurance company compared to the industry in general.

American Southern. American Southern Insurance Company and its wholly-owned subsidiary, American Safety Insurance Company, are each, as of the date of this report, rated "A" (Excellent) by A.M. Best.

Bankers Fidelity. Bankers Fidelity Life Insurance Company and its wholly-owned subsidiary, Bankers Fidelity Assurance Company, are each, as of the date of this report, rated "A-" (Excellent) by A.M. Best.

Regulation

Like all domestic insurance companies, the Company's insurance subsidiaries are subject to regulation and supervision in the jurisdictions in which they do business. Statutes typically delegate regulatory, supervisory, and administrative powers to state insurance commissioners. The method of such regulation varies, but regulation relates generally to the licensing of insurers and their agents, the nature of and limitations on investments, approval of policy forms, reserve requirements, the standards of solvency to be met and maintained, deposits of securities for the benefit of policyholders, and periodic examinations of insurers and trade practices, among other things. The Company's products generally are subject to rate regulation by state insurance commissions, which require that certain minimum loss ratios be maintained. Certain states also have insurance holding company laws which require registration and periodic reporting by insurance companies controlled by other corporations licensed to transact business within their respective jurisdictions. The Company's insurance subsidiaries are subject to such legislation and are registered as controlled insurers in those jurisdictions in which such registration is required. Such laws vary from state to state, but typically require periodic disclosure concerning the corporation which controls the registered insurers and all subsidiaries of such corporations, as well as prior notice to, or approval by, the state insurance commissioners of intercorporate transfers of assets (including payments of dividends by the insurance subsidiaries in excess of specified amounts) within the holding company system. The Company believes it is in compliance with all such requirements.

Most states require that rate schedules and other information be filed with the state's insurance regulatory authority, either directly or through a ratings organization with which the insurer is affiliated. The regulatory authority may disapprove a rate filing if it determines that the rates are inadequate, excessive, or discriminatory. The Company has historically experienced no significant regulatory resistance to its applications for rate adjustments; however, the Company cannot provide any assurance that it will not receive any objections to any applications in the future.

A state may require that acceptable securities be deposited for the protection either of policyholders located in those states or of all policyholders. As of December 31, 2020, the Company was in compliance with all such requirements, and securities with an amortized cost of \$10.7 million were on deposit either directly with various state authorities or with third parties pursuant to various custodial agreements on behalf of the Company's insurance subsidiaries.

Virtually all of the states in which the Company's insurance subsidiaries are licensed to transact business require participation in their respective guaranty funds designed to cover claims against insolvent insurers. Insurers authorized to transact business in these jurisdictions are generally subject to assessments of up to 4% of annual direct premiums written in that jurisdiction to pay such claims, if any. The likelihood and amount of any future assessments cannot be estimated until an insolvency has occurred.

NAIC Ratios

The National Association of Insurance Commissioners (the "NAIC") was established to, among other things, provide guidelines to assess the financial strength of insurance companies for state regulatory purposes. The NAIC conducts annual reviews of the financial data of insurance companies primarily through the application of financial ratios prepared on a statutory basis. Annual statements are required to be submitted to state insurance departments to assist them in monitoring insurance companies in their state and to allow such states to determine a desirable range for each such ratio with which companies should comply.

The NAIC developed the Insurance Regulatory Information System ("IRIS") to help state regulators identify companies that may require regulatory attention. Financial examiners review annual financial statements and the results of key financial ratios based on year-end data with the goal of identifying insurers that appear to require immediate regulatory attention. Each ratio has an established "usual range" of results. A ratio result falling outside the usual range, however, is not necessarily considered adverse; rather, unusual values are used as part of the regulatory early monitoring system. Furthermore, in some years, it may not be unusual for financially sound companies to have several ratios with results outside the usual ranges. Generally, an insurance company may become subject to regulatory scrutiny or, depending on the company's financial condition, regulatory action if certain of its key IRIS ratios fall outside the usual ranges and the insurer's financial condition is trending downward.

For the year ended December 31, 2020, Bankers Fidelity Life Insurance Company had no IRIS ratios outside the usual ranges. However, Bankers Fidelity Assurance Company had three ratios outside the usual range primarily as a result of net loss for the year, certain surplus ratios and nonadmitted assets to admitted assets. The net loss at Bankers Fidelity Assurance Company is primarily related to federal income taxes incurred which resulted in a corresponding decrease in surplus levels for the year as well as a growing deferred tax asset which is reduced by admissibility limitations. American Southern Insurance Company and American Safety Insurance Company had no IRIS ratios outside the usual ranges. Management does not anticipate regulatory action as a result of the 2020 IRIS ratio results for the insurance subsidiaries.

Risk-Based Capital

Risk-based capital ("RBC") is a metric used by ratings agencies and regulators as an early warning tool to identify weakly capitalized companies for the purpose of initiating further regulatory action. The RBC calculation determines the amount of adjusted capital needed by a company to avoid regulatory action. "Authorized Control Level Risk-Based Capital" ("ACL") is

calculated, and if a company’s adjusted capital is 200% or lower than ACL, it is subject to regulatory action. At December 31, 2020, the Company’s insurance subsidiaries’ RBC levels exceeded the required regulatory levels.

Information Technology and Cybersecurity

The Company's operations rely on the secure processing, storage, and transmission of confidential and personal identifiable information within technology platforms. Cybersecurity is a high priority and the Company has made significant investments in order to prevent, detect, and respond to cyber threats. In recent years, the Company has enhanced intrusion protection and detection technology, infrastructure and application firewalls, and network monitoring. The Company has also installed advanced endpoint threat protection technology and implemented a mandatory security awareness training program for all employees.

The Company has a sophisticated technology environment that supports the replication of data across multiple secure data centers. It also includes a comprehensive disaster recovery plan that is continually tested to ensure capabilities to resume business in the event of a disaster. The Company's technology environment is managed by an experienced team of professionals who follow an extensive set of policies and procedures related to data security. Through recurring internal and external audits, controls are regularly reviewed, tested, and enhanced to ensure best practices. The Company has augmented the information security program through a partnership with a leading global cybersecurity provider to review and implement additional services such as Security Event Monitoring, Advanced Endpoint Threat Detection, Incident Management Retainer Services, and Strategic Advisory Services focused on Chief Information Security Officer (CISO) duties such as counter-threat intelligence.

The information security program also includes a cybersecurity Incident Response Plan ("IRP") that was established to help protect the integrity, availability and confidentiality of information, prevent loss of service, and comply with legal requirements. The IRP specifies the process for identifying and reporting an incident, initial investigation, risk classification, documentation and communication of incidents, responder procedures, incident reporting, and ongoing training. Additionally, the IRP specifies the notification to directors, officers, and other corporate insiders to not trade the Company's securities while in possession of potentially material nonpublic information about the incident.

The Audit Committee of the Board of Directors has oversight of the Company's information security program. The Company's senior officers, including its Chief Information Officer, are responsible for the operation of the information security program and regularly communicate with the Audit Committee on the state of the program.

The Company also maintains dedicated cyber liability insurance for breach event costs, including: post breach event remediation costs; cyber crime coverage (including financial fraud, telecommunications fraud, and phishing attacks); and coverage for system failure, bricking loss, and physical damage. The policy also provides coverage for lost revenue due to a damaged reputation from a cyber breach.

Investments

Investment income represents a significant portion of the Company's operating and total income. Insurance company investments are subject to state insurance laws and regulations which limit the concentration and types of investments. The following table provides information on the Company's investments as of the dates indicated.

	December 31,			
	2020		2019	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 30,762	11.0%	\$ 20,259	7.5%
States, municipalities and political subdivisions	11,802	4.2	11,940	4.5
Public utilities	13,651	4.9	11,449	4.3
All other corporate bonds	197,641	70.8	188,574	70.2
Redeemable preferred stock	250	0.1	250	0.1
Total fixed maturities ⁽¹⁾	254,106	91.0	232,472	86.6
Common and non-redeemable preferred stocks ⁽²⁾	18,716	6.7	22,922	8.5
Policy loans ⁽³⁾	1,975	0.7	2,007	0.7
Other invested assets ⁽⁴⁾	3,238	1.2	9,960	3.7
Real estate	38	0.0	38	0.0
Investments in unconsolidated trusts	1,238	0.4	1,238	0.5
Total investments	\$ 279,311	100.0%	\$ 268,637	100.0%

- (1) Fixed maturities are carried on the balance sheet at estimated fair value. Certain fixed maturities do not have publicly quoted prices, and are carried at estimated fair value as determined by management. Total amortized cost of fixed maturities was \$222.5 million as of December 31, 2020 and \$219.2 million as of December 31, 2019.
- (2) Equity securities are carried on the balance sheet at estimated fair value. Total cost of equity securities was \$6.4 million as of December 31, 2020 and \$7.2 million as of December 31, 2019.
- (3) Policy loans are valued at unpaid principal balances.
- (4) Other invested assets are accounted for using the equity method. Total cost of other invested assets was \$3.8 million as of December 31, 2020 and \$9.9 million as of December 31, 2019.

Estimated fair values are determined as discussed in Note 1 of Notes to Consolidated Financial Statements.

Results of the Company's investment portfolio for periods shown were as follows:

	Year Ended December 31,	
	2020	2019
	(Dollars in thousands)	
Average investments ⁽¹⁾	\$ 252,141	\$ 253,467
Net investment income	7,744	8,979
Average yield on investments	3.1%	3.5%
Realized investment gains, net	7,420	1,574

(1) Calculated as the average of cash and investment balances (at amortized cost) at the beginning of the year and at the end of each of the succeeding four quarters.

During 2019, the Company engaged a global investment management firm serving the insurance industry to manage the Company's investment portfolios. Management's recent investment strategy has been a continued focus on quality and diversification, while improving the overall risk versus return profile of the portfolio.

Employees

The Company and its subsidiaries employed 153 people at December 31, 2020. Of the 153 people employed at December 31, 2020, 152 were full-time.

Financial Information by Industry Segment

Each of American Southern and Bankers Fidelity operate with relative autonomy and each company is evaluated on its individual performance. American Southern operates in the property and casualty insurance market, while Bankers Fidelity operates in the life and health insurance market. Each segment derives revenue from the collection of premiums, as well as from investment income. Substantially all revenue other than that in the corporate and other segment is from external sources. See Note 15 of Notes to Consolidated Financial Statements.

Available Information

The Company files annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports and other information with the Securities and Exchange Commission (the "SEC"). The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, including the Company. In addition, as soon as reasonably practicable after such materials are filed with or furnished to the SEC by the Company, the Company makes copies available to the public, free of charge, on or through its web site at www.atlam.com. Neither the Company's website, nor the information appearing on the website, is included, incorporated into, or a part of, this report.

Executive Officers of the Registrant

The table and information below set forth, for each executive officer of the Company as of December 31, 2020, his name, age, positions with the Company and business experience for the past five years, as well as any prior service to the Company.

Name	Age	Positions with the Company	Director or Officer Since
Hilton H. Howell, Jr.	58	Chairman of the Board, President & CEO	1992
J. Ross Franklin	43	Vice President, CFO and Corporate Secretary	2017

Officers are elected annually and serve at the discretion of the board of directors.

Mr. Howell has been President and Chief Executive Officer of the Company since May 1995, and prior thereto served as Executive Vice President of the Company from October 1992 to May 1995. He has been a Director of the Company since October 1992 and effective February 24, 2009, began serving as Chairman of the board of directors. He is also Executive Chairman and Chief Executive Officer of Gray Television, Inc.

Mr. Franklin has been Vice President, Chief Financial Officer and Corporate Secretary of the Company since November 2017, and prior thereto served as Interim Chief Financial Officer from August 2017 to November 2017. Since 2000 he has held various roles of increasing responsibility with Atlantic American and its subsidiaries, previously serving as Vice President, Accounting and Treasurer of Bankers Fidelity since 2009.

Forward-Looking Statements

Certain of the statements contained or incorporated by reference herein are forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Exchange Act of 1933, and Section 21E of the Securities Act of 1934, and include estimates and assumptions related to, among other things, general economic, competitive, operational and legislative developments. Forward-looking statements are subject to changes and uncertainties which are, in many instances, beyond the Company's control and have been made based upon management's current expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with management's expectations or that the effect of future developments on the Company will be those anticipated by management. Actual results could differ materially from those expected by the Company, depending on the occurrence or outcome of various factors. These factors include, among others: significant changes in general economic conditions; unexpected developments in the health care or insurance industries affecting providers or individuals, including the cost or availability of services, or the tax consequences related thereto; disruption to the financial markets; unanticipated increases in the rate, number and amounts of claims outstanding; the level of performance of reinsurance companies under reinsurance contracts and the availability, pricing and adequacy of reinsurance to protect the Company against losses; changes in the stock markets, interest rates or other financial markets, including the potential effect on the Company's statutory capital levels; the uncertain effect on the Company of regulatory and market-driven changes in practices relating to the payment of incentive compensation to brokers, agents and other producers; the impact of COVID-19 or other public health emergencies; the incidence and severity of catastrophes, both natural and man-made; the possible occurrence of terrorist attacks; stronger than anticipated competitive activity; unfavorable judicial or legislative developments; the potential effect of regulatory developments, including those which could increase the Company's business costs and required capital levels; the Company's ability to distribute its products through distribution channels, both current and future; the uncertain effect of emerging claim and coverage issues; the effect of assessments and other surcharges for guaranty funds and other mandatory pooling arrangements; and risks related to cybersecurity matters, such as breaches of our computer network or the loss of unauthorized access to the data we maintain. Many of such factors are beyond the Company's ability to control or predict. As a result, the Company's actual financial condition and results of operations could differ materially from those expressed in any forward-looking statements made by the Company. Undue reliance should not be placed upon forward-looking statements. The Company does not intend to publicly update any forward-looking statements that may be made from time to time by, or on behalf of, the Company.

Item 1A. Risk Factors

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K (a "smaller reporting company"), we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the information required by this Item.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Leased Properties. The Company leases space for its principal offices and for some of its insurance operations in an office building located in Atlanta, Georgia, from Delta Life Insurance Company under a lease which continues until either party provides written notice of cancellation at least twelve months in advance of the actual termination date. The lease, which commenced on November 1, 2007, provides for rent adjustments on every fifth anniversary of the commencement date. Under the current terms of the lease, the Company occupies approximately 49,586 square feet of office space. Delta Life Insurance Company, the owner of the building, is controlled by an affiliate of the Company.

American Southern leases space for its office in a building located in Atlanta, Georgia. The lease term expires September 30, 2026. Under the terms of the lease, American Southern occupies approximately 17,014 square feet.

The Company believes that its current properties are in good condition, and are sufficient for the operations of its business.

Item 3. Legal Proceedings

From time to time, the Company and its subsidiaries are, and expect to continue to be, involved in various claims and lawsuits arising in the ordinary course of business, both as a liability insurer defending third-party claims brought against insureds and as an insurer defending coverage claims brought against it. The Company accounts for such exposures through the establishment of loss and loss adjustment expense reserves. We do not expect that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for probable losses and costs of defense, will be material to the Company's consolidated financial condition, although the results of such litigation could be material to the consolidated results of operations for any given period.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The Company’s common stock is listed on the Nasdaq Global Market (Symbol: AAME). As of March 10, 2021, there were 6,428 shareholders of record.

On March 23, 2021, the Company’s board of directors declared an annual cash dividend of \$0.02 per share of common stock that is payable to shareholders of record as of the close of business on April 13, 2021. Payment of any dividends in the future will be at the discretion of the Company’s board of directors and will depend upon the financial condition, capital requirements, and earnings of the Company, as well as any restrictions contained in any agreements by which the Company is bound and other factors as the board of directors may deem relevant. The Company’s primary recurring source of cash for the payment of dividends is dividends from its subsidiaries; although as of December 31, 2020, the Parent held unrestricted cash and investment balances of approximately \$4.7 million. Under the insurance code of the state in which each insurance subsidiary is domiciled, dividend payments to the Company by its insurance subsidiaries are subject to certain limitations, including prior notice to, or approval by, the state insurance commissioners if such dividends are in excess of specified amounts. In 2021, dividend payments to the Parent by the insurance subsidiaries in excess of \$9.6 million would require prior approval.

Issuer Purchases of Equity Securities

On October 31, 2016, the Board of Directors of the Company approved a plan that allows for the repurchase of up to 750,000 shares of the Company’s common stock (the “Repurchase Plan”) on the open market or in privately negotiated transactions, as determined by an authorized officer of the Company. Any such repurchases can be made from time to time in accordance with applicable securities laws and other requirements.

Other than pursuant to the Repurchase Plan, no purchases of common stock of the Company were made by or on behalf of the Company during the periods described below.

The table below sets forth information regarding repurchases by the Company of shares of its common stock on a monthly basis during the three month period ended December 31, 2020.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
October 1 – October 31, 2020	—	\$ —	—	325,129
November 1 – November 30, 2020	—	—	—	325,129
December 1 – December 31, 2020	—	—	—	325,129
Total	<u>—</u>	<u>\$ —</u>	<u>—</u>	

Stock Performance Graph

As a smaller reporting company, we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the information required by this Item.

Item 6. Selected Financial Data

As a smaller reporting company, we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the information required by this Item.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's discussion and analysis of the financial condition and results of operations of Atlantic American Corporation ("Atlantic American" or the "Parent") and its subsidiaries (collectively with the Parent, the "Company") for the years ended December 31, 2020 and 2019. This discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere herein.

Atlantic American is an insurance holding company whose operations are conducted primarily through its insurance subsidiaries: American Southern Insurance Company and American Safety Insurance Company (together known as "American Southern") in the property and casualty insurance industry, and Bankers Fidelity Life Insurance Company and Bankers Fidelity Assurance Company (together known as "Bankers Fidelity") in the life and health insurance industry. Each operating company is managed separately, offers different products and is evaluated on its individual performance.

Critical Accounting Policies

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America ("GAAP") and, in management's belief, conform to general practices within the insurance industry. The following is an explanation of the Company's accounting policies and the resultant estimates considered most significant by management. These accounting policies inherently require significant judgment and assumptions and actual operating results could differ significantly from management's estimates determined using these policies. Atlantic American does not expect that changes in the estimates determined using these policies will have a material effect on the Company's financial condition or liquidity, although changes could have a material effect on its consolidated results of operations.

Cash and investments comprised 74% of the Company's total assets at December 31, 2020. Substantially all of the Company's investments are in bonds and common and preferred stocks, the values of which are subject to significant market fluctuations. The Company carries all fixed maturities, which includes bonds and redeemable preferred stocks, and equity securities, which includes common and non-redeemable preferred stocks, as available for sale and, accordingly, at their estimated fair values. On occasion, the value of a fixed maturity investment may decline to a value below its amortized purchase price and remain at such value for an extended period of time. When a fixed maturity investment's indicated fair value has declined below its cost basis for a period of time, the Company evaluates such investment for an other than temporary impairment. The evaluation for an other than temporary impairment is a quantitative and qualitative process, which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. Potential risks and uncertainties include, among other things, changes in general economic conditions, an issuer's financial condition or near term recovery prospects and the effects of changes in interest rates. In evaluating a potential impairment, the Company considers, among other factors, management's intent and ability to hold the securities until price recovery, the nature of the investment and the expectation of prospects for the issuer and its industry, the status of an issuer's continued satisfaction of its obligations in accordance with their contractual terms, and management's expectation as to the issuer's ability and intent to continue to do so, as well as ratings actions that may affect the issuer's credit status. If an other than temporary impairment is deemed to exist, then the Company will write down the amortized cost basis of the investment to its estimated fair value. While any such write down does not impact the reported value of the investment in the Company's balance sheet, it is reflected as a realized investment loss in the Company's net income or other comprehensive income, depending upon the nature of the loss, in the period incurred.

The Company determines the fair values of certain financial instruments based on the fair value hierarchy established in Accounting Standards Codification ("ASC") 820-10-20, *Fair Value Measurements and Disclosures* ("ASC 820-10-20"). The fair values of fixed maturities and equity securities are largely determined by nationally quoted market prices, when available, or independent broker quotations. See Note 2 and Note 3 of Notes to Consolidated Financial Statements with respect to assets and liabilities carried at fair value and information about the inputs used to value those financial instruments, by hierarchy level, in accordance with ASC 820-10-20.

Future policy benefits comprised 35% of the Company's total liabilities at December 31, 2020. These liabilities relate primarily to life insurance products and are based upon assumed future investment yields, mortality rates, withdrawal rates and expenses after giving effect to possible risks of adverse deviation. The assumed mortality and withdrawal rates are based upon the Company's experience modified as necessary to reflect anticipated trends and are generally established at contract inception. If actual results differ from the initial assumptions, the amount of the Company's recorded liability could require adjustment.

Unpaid loss and loss adjustment expenses comprised 30% of the Company's total liabilities at December 31, 2020. This liability includes estimates for: 1) unpaid losses on claims reported prior to December 31, 2020, 2) future development on those reported claims, 3) unpaid ultimate losses on claims incurred prior to December 31, 2020 but not yet reported and 4) unpaid loss adjustment expenses for reported and unreported claims incurred prior to December 31, 2020. Quantification of loss estimates for each of these components involves a significant degree of judgment and estimates may vary, materially, from period to period. Estimated unpaid losses on reported claims are developed based on historical experience with similar claims by the Company. Development on reported claims, estimates of unpaid ultimate losses on claims incurred prior to December 31, 2020 but not yet reported, and estimates of unpaid loss adjustment expenses are developed based on the Company's historical experience, using actuarial methods to assist in the analysis. The Company's actuaries develop ranges of estimated development on reported and unreported claims as well as loss adjustment expenses using various methods, including the paid-loss development method, the reported-loss development method, the paid Bornhuetter-Ferguson method and the reported Bornhuetter-Ferguson method. Any single method used to estimate ultimate losses has inherent advantages and disadvantages due to the trends and changes affecting the business environment and the Company's administrative policies. Further, external factors, such as legislative changes, medical cost inflation, and others may directly or indirectly impact the relative adequacy of liabilities for unpaid losses and loss adjustment expenses. The Company's approach is to select an estimate of ultimate losses based on comparing results of a variety of reserving methods, as opposed to total reliance on any single method. Unpaid loss and loss adjustment expenses are reviewed periodically for significant lines of business, and when current results differ from the original assumptions used to develop such estimates, the amount of the Company's recorded liability for unpaid loss and loss adjustment expenses is adjusted. In the event the Company's actual reported losses in any period are materially in excess of the previously estimated amounts, such losses, to the extent reinsurance coverage does not exist, could have a material adverse effect on the Company's results of operations.

Receivables are amounts due from reinsurers, insureds and agents, and any sales of investment securities not yet settled, and comprised 14% of the Company's total assets at December 31, 2020. Insured and agent balances are evaluated periodically for collectibility. Annually, the Company performs an analysis of the creditworthiness of the reinsurers with whom the Company contracts using various data sources. Failure of reinsurers to meet their obligations due to insolvencies, disputes or otherwise could result in uncollectible amounts and losses to the Company. Allowances for uncollectible amounts are established, as and when a loss has been determined probable, against the related receivable. Losses are recognized by the Company when determined on a specific account basis and a general provision for loss is made based on the Company's historical experience.

Deferred acquisition costs comprised 10% of the Company's total assets at December 31, 2020. Deferred acquisition costs are commissions, premium taxes, and other incremental direct costs of contract acquisition that results directly from and are essential to the contract transaction(s) and would not have been incurred by the Company had the contract transaction(s) not occurred. The deferred amounts are recorded as an asset on the balance sheet and amortized to expense in a systematic manner. Traditional life insurance and long-duration health insurance deferred policy acquisition costs are amortized over the estimated premium-paying period of the related policies using assumptions consistent with those used in computing the related liability for policy benefit reserves. Deferred acquisition costs for property and casualty insurance and short-duration health insurance are amortized over the effective period of the related insurance policies. Deferred policy acquisition costs are expensed when such costs are deemed not to be recoverable from future premiums (for traditional life and long-duration health insurance) and from the related unearned premiums and investment income (for property and casualty and short-duration health insurance). Assessments of recoverability for property and casualty and short-duration health insurance are extremely sensitive to the estimates of a subsequent year's projected losses related to the unearned premiums. Projected loss estimates for a current block of business for which unearned premiums remain to be earned may vary significantly from the indicated losses incurred in any previous calendar year.

Deferred income taxes reflect the effect of temporary differences between assets and liabilities that are recognized for financial reporting purposes and the amounts that are recognized for tax purposes. These deferred income taxes are measured by applying currently enacted tax laws and rates. Valuation allowances are recognized to reduce the deferred tax asset to the amount that is deemed more likely than not to be realized. In assessing the likelihood of realization, management considers estimates of future taxable income and tax planning strategies.

Share-based transactions include employee and director *share-based compensation awards*. The Company determines a grant date fair value based on the price of our publicly-traded common stock and recognize the related compensation expense, adjusted for actual forfeitures, in the consolidated statement of operations on a straight-line basis over the requisite service period for the entire award. For non-employee share-based compensation awards, the Company recognizes the impact during the period of performance, and the fair value of the award is measured as of the date performance is complete, which is the vesting date.

Refer to Note 1 of Notes to Consolidated Financial Statements for details regarding the Company's significant accounting policies.

Overall Corporate Results

	Year Ended December 31,	
	2020	2019
	(In thousands)	
Revenue		
Property and Casualty:		
American Southern	\$ 69,179	\$ 62,402
Life and Health:		
Bankers Fidelity	127,144	131,611
Corporate and Other	(975)	4,166
Total revenue	\$ 195,348	\$ 198,179
Income (loss) before income taxes		
Property and Casualty:		
American Southern	\$ 10,436	\$ 5,729
Life and Health:		
Bankers Fidelity	12,430	(3,646)
Corporate and Other	(7,363)	(2,490)
Income (loss) before income taxes	\$ 15,503	\$ (407)
Net income (loss)	\$ 12,169	\$ (386)

Management also considers and evaluates performance by analyzing the non-GAAP measure operating income or loss, and believes it is a useful metric for investors, potential investors, securities analysts and others because it isolates the “core” operating results of the Company before considering certain items that are either beyond the control of management (such as income tax expense, which is subject to timing, regulatory and rate changes depending on the timing of the associated revenues and expenses) or are not expected to regularly impact the Company’s operational results (such as any realized or unrealized investment gains or losses, which are not a part of the Company’s primary operations and are, to a limited extent, subject to discretion in terms of timing of realization).

A reconciliation of net income (loss) to operating income (loss) is as follows:

	Year Ended December 31,	
	2020	2019
	(In thousands)	
Reconciliation of Non-GAAP Financial Measure		
Net income (loss)	\$ 12,169	\$ (386)
Income tax expense (benefit)	3,334	(21)
Realized investment gains, net	(7,420)	(1,574)
Unrealized (gains) losses on equity securities, net	3,431	(5,511)
Non-GAAP operating income (loss)	\$ 11,514	\$ (7,492)

On a consolidated basis, the Company had net income of \$12.2 million, or \$0.56 per diluted share, in 2020, compared to net loss of \$0.4 million, or \$0.04 per diluted share, in 2019. Operating income was \$11.5 million in 2020 as compared to an operating loss of \$7.5 million in 2019. The increase in operating income was primarily due to favorable loss experience in the life and health operations, resulting from a significant decrease in the number of incurred claims within the Medicare supplement line of business. This decrease in the number of incurred claims was primarily attributable to the Company’s individual policy holders being subject to varying degrees of shelter in place orders instituted throughout the United States during 2020 as a result of COVID-19.

Total revenue was \$195.3 million in 2020 as compared to \$198.2 million in 2019. Premium revenue increased to \$183.5 million in 2020 from \$181.9 million in 2019. The increase in premium revenue was primarily due to an increase in the automobile physical damage line of business within the property and casualty operations in addition to life and other health lines in the life and health operations. Partially offsetting the increase in premium revenue was a decrease in the Medicare supplement line of business in the life and health operations.

A more detailed analysis of the operating companies and other corporate activities follows.

UNDERWRITING RESULTS

American Southern

The following table summarizes, for the periods indicated, American Southern's premiums, losses, expenses and underwriting ratios:

	Year Ended December 31,	
	2020	2019
	(Dollars in thousands)	
Gross written premiums	\$ 70,256	\$ 65,848
Ceded premiums	(5,890)	(5,520)
Net written premiums	\$ 64,366	\$ 60,328
Net earned premiums	\$ 62,372	\$ 58,680
Insurance benefits and losses incurred	39,339	39,541
Commissions and underwriting expenses	19,404	17,132
Underwriting income	\$ 3,629	\$ 2,007
Loss ratio	63.1%	67.4%
Expense ratio	31.1	29.2
Combined ratio	94.2%	96.6%

Gross written premiums at American Southern increased \$4.4 million, or 6.7%, during 2020 as compared to 2019. The increase in gross written premiums was primarily attributable to an increase in premiums written in the automobile physical damage line of business due to a new agency that started in the second half of 2019, as well as increased writings from certain existing agencies. Also contributing to the increase in gross written premiums was an increase in premiums written in the general liability line of business related to new and existing programs. Partially offsetting the increase in gross written premiums was a decline in premiums written in the automobile liability line of business primarily attributable to the cancellation of certain programs and a return of premium to one account as a result of a decline of usage due to the impact of the COVID-19 pandemic.

Ceded premiums increased \$0.4 million, or 6.7%, during 2020 as compared to 2019. American Southern's ceded premiums are typically determined as a percentage of earned premiums and generally increase or decrease as earned premiums increase or decrease. Also contributing to the increase in ceded premiums was an increase in earned premiums in certain accounts within the automobile physical damage and general liability lines of business, which are subject to reinsurance.

The following table summarizes, for the periods indicated, American Southern's net earned premiums by line of business:

	Year Ended December 31,	
	2020	2019
	(In thousands)	
Automobile liability	\$ 30,312	\$ 30,649
Automobile physical damage	18,730	15,309
General liability	3,891	3,309
Surety	5,857	6,319
Other lines	3,582	3,094
Total	\$ 62,372	\$ 58,680

Net earned premiums increased \$3.7 million, or 6.3%, during 2020 as compared to 2019. The increase in net earned premiums was primarily attributable to an increase in automobile physical damage coverage resulting from the new agency as previously mentioned. Premiums are earned ratably over their respective policy terms and therefore premiums earned in the current year are related to policies written during both the current year and immediately preceding year.

The performance of an insurance company is often measured by its combined ratio. The combined ratio represents the percentage of losses, loss adjustment expenses and other expenses that are incurred for each dollar of premium earned by the company. A combined ratio of under 100% represents an underwriting profit while a combined ratio of over 100% indicates an underwriting loss. The combined ratio is divided into two components, the loss ratio (the ratio of losses and loss adjustment expenses incurred to premiums earned) and the expense ratio (the ratio of expenses incurred to premiums earned).

Insurance benefits and losses incurred at American Southern decreased \$0.2 million, or 0.5%, during 2020 as compared to 2019. As a percentage of premiums, insurance benefits and losses incurred were 63.1% in 2020 as compared to 67.4% in 2019. The decrease in the loss ratio was primarily due to a decline in the number and severity of claims in the automobile liability line of business as a result of the impact of the COVID-19 pandemic. Partially offsetting the decrease in the loss ratio was less favorable loss experience in the automobile physical damage line of business due to an increase in frequency of claims from the new agency.

Commissions and underwriting expenses increased \$2.3 million, or 13.3%, during 2020 as compared to 2019. As a percentage of premiums, these expenses were 31.1% in 2020 as compared to 29.2% in 2019. The increase in the expense ratio was primarily due to an increase in fixed costs related to new business related to the new agency as previously mentioned. Also contributing to the increase in the expense ratio is American Southern's use of a variable commission structure with certain agents, which compensates the participating agents in relation to the loss ratios of the business they write. During periods in which the loss ratio decreases, commissions and underwriting expenses will generally increase, and conversely, during periods in which the loss ratio increases, commissions and underwriting expenses will generally decrease. In 2020, variable commissions at American Southern increased \$0.1 million as compared to 2019 due to improved loss ratios from certain accounts subject to variable commissions.

In establishing reserves, American Southern initially reserves for losses at the higher end of the reasonable range if no other value within the range is determined to be more probable. Selection of such an initial loss estimate is an attempt by management to give recognition that initial claims information received generally is not conclusive with respect to legal liability, is generally not comprehensive with respect to magnitude of loss and generally, based on historical experience, will develop more adversely as time passes and more information becomes available. However, as a result, American Southern generally experiences reserve redundancies when analyzing the development of prior year losses in the current period. At December 31, 2020, the range of estimates developed in connection with the loss reserves for American Southern indicated that reserves could be as much as 13.5% lower or as much as 0.8% higher. Development from prior years' reserves has historically reduced the current year loss ratio; however, such reduction in the current year loss ratio is generally offset by the reserves established in the current year for current period losses. Management believes that such differences will continue in future periods, but is unable to determine if or when incremental redundancies will increase or decrease until the underlying losses are ultimately settled.

Contingent commissions, if contractually applicable, are ultimately payable to participating agents based on the underlying profitability of a particular insurance contract or a group of insurance contracts, and are periodically evaluated and accrued as earned. In 2020, approximately 47% of American Southern's earned premium provides for contractual commission arrangements which compensate the company's agents in relation to the loss ratios of the business they write, compared to 44% in 2019. By structuring its business in this manner, American Southern provides its agents with an economic incentive to place profitable business with American Southern. In periods in which loss reserves reflect favorable development from prior years' reserves, there is generally a highly correlated increase in commission expense also related to the prior year business. Accordingly, favorable loss development from prior years, while anticipated to continue in future periods, is not an indicator of significant additional profitability in the current year.

Bankers Fidelity

The following summarizes, for the periods indicated, Bankers Fidelity's premiums, losses and expenses:

	Year Ended December 31,	
	2020	2019
	(Dollars in thousands)	
Medicare supplement	\$ 174,525	\$ 179,180
Other health products	9,218	7,817
Life insurance	9,348	8,509
Gross earned premiums	193,091	195,506
Ceded premiums	(71,924)	(72,261)
Net earned premiums	121,167	123,245
Insurance benefits and losses incurred	80,537	99,684
Commissions and underwriting expenses	34,177	35,573
Total expenses	114,714	135,257
Underwriting income (loss)	\$ 6,453	\$ (12,012)
Loss ratio	66.5%	80.9%
Expense ratio	28.2	28.9
Combined ratio	94.7%	109.8%

Net earned premium revenue at Bankers Fidelity decreased \$2.1 million, or 1.7%, during 2020 as compared to 2019. Gross earned premiums from the Medicare supplement line of business decreased \$4.7 million, or 2.6%, in 2020 as compared to 2019, due primarily to non-renewals exceeding the level of new business writings. Other health product premiums increased \$1.4 million, or 17.9%, during 2020 as compared to 2019, primarily as a result of new sales of the company's group health products. Gross earned premiums from the life insurance line of business increased \$0.8 million, or 9.9%, in 2020 from 2019 due to an increase in the group life products premium. Partially offsetting the increase in gross earned premiums from the life insurance line was a decrease in individual life products premium, resulting from the redemption and settlement of existing individual life policy obligations exceeding the level of new individual life sales. Premiums ceded decreased \$0.3 million, or 0.5%, in 2020 from 2019. The decrease in ceded premiums was due to a decrease in Medicare supplement premiums subject to the reinsurance agreement.

Insurance benefits and losses incurred decreased \$19.1 million, or 19.2%, during 2020 as compared to 2019. As a percentage of premiums, benefits and losses were 66.5% in 2020 as compared to 80.9% in 2019. The decrease in the loss ratio was primarily due to a significantly lower number of claims incurred in the Medicare supplement line of business due to the Company's individual policy holders being subject to varying degrees of shelter in place orders instituted throughout the United States during 2020 as a result of COVID-19. Also contributing to the decrease in the loss ratio was an improvement in rate adequacy in the Medicare supplement line of business as a result of implementation of rate increases on existing business.

Commissions and underwriting expenses decreased \$1.4 million, or 3.9%, during 2020 as compared to 2019. As a percentage of earned premiums, these expenses were 28.2% in 2020 as compared to 28.9% in 2019. The decrease in the expense ratio was primarily due to a decrease in agent incentive costs and realization of costs saving initiatives, predominantly related to postage costs. Also contributing to the decrease in the expense ratio was a decrease in expenses related to servicing the Medicare supplement line of business.

Net Investment Income and Realized Gains

Investment income decreased \$1.2 million, or 13.8%, in 2020 as compared to 2019. The decrease in investment income was primarily attributable to a decrease in the equity in earnings from investments in the Company's limited partnerships and limited liability companies of \$0.9 million.

The Company had net realized investment gains of \$7.4 million in 2020 as compared to net realized investment gains of \$1.6 million in 2019. The net realized investment gains in 2020 were primarily attributable to gains of \$6.9 million from the sale of the Company's interest in a certain limited liability company as well as gains from the sale of a number of the Company's investments in fixed maturities. The net realized investment gains in 2019 resulted from the disposition of certain of the Company's investments in equity and fixed maturities. Management continually evaluates the Company's investment portfolio and, as may be determined to be appropriate, makes adjustments for impairments and/or will divest investments. See Note 2 of Notes to Consolidated Financial Statements.

Unrealized Gains (Losses) on Equity Securities, Net

Investments in equity securities are measured at fair value at the end of the reporting period, with any changes in fair value reported in net income during the period. The Company recognized net unrealized losses on equity securities of \$3.4 million and unrealized gains of \$5.5 million during the years ended December 2020 and 2019, respectively. Changes in unrealized gains on equity securities for the applicable periods are primarily the result of fluctuations in the market value of certain of the Company's equity securities.

Interest Expense

Interest expense decreased \$0.5 million, or 24.4%, in 2020 as compared to 2019 due to a decrease in the average London Interbank Offered Rate ("LIBOR") during the years ending 2020 and 2019, respectively, as the interest rates on the Company's outstanding junior subordinated deferrable interest debentures ("Junior Subordinated Debentures") are directly related to LIBOR.

Income Taxes

The primary differences between the effective tax rate and the federal statutory income tax rate for 2020 resulted from permanent differences related to meals & entertainment and vested stock grants. Also contributing to differences between the effective tax rate and the federal statutory income tax rate were provision-to-filed return adjustments that are generally updated at the completion of the third quarter of each fiscal year and were \$0.02 million in the year ended December 31, 2020.

The primary differences between the effective tax rate and the federal statutory income tax rate for 2019 resulted from permanent differences related to meals & entertainment and vested stock grants. Also contributing to differences between the effective tax rate and the federal statutory income tax rate was the dividends-received deduction ("DRD"). The current estimated DRD is adjusted as underlying factors change and can vary from estimates based on, but not limited to, actual distributions from investments as well as the amount of the Company's taxable income.

Liquidity and Capital Resources

The primary cash needs of the Company are for the payment of claims and operating expenses, maintaining adequate statutory capital and surplus levels, and meeting debt service requirements. Current and expected patterns of claim frequency and severity may change from period to period, but generally are expected to continue within historical ranges. The Company's primary sources of cash are written premiums, investment income and proceeds from the sale and maturity of its invested assets. The Company believes that, within each operating company, total invested assets will be sufficient to satisfy all policy liabilities and that cash inflows from investment earnings, future premium receipts and reinsurance collections will be adequate to fund the payment of claims and operating expenses as needed.

Cash flows at the Parent are derived from dividends, management fees, and tax-sharing payments, as described below, from the subsidiaries. The principal cash needs of the Parent are for the payment of operating expenses, the acquisition of capital assets and debt service requirements, as well as the repurchase of shares and payments of any dividends as may be authorized and approved by the Company's board of directors from time to time. At December 31, 2020, the Parent had approximately \$4.7 million of unrestricted cash and investments.

Dividend payments to a parent corporation by its wholly owned insurance subsidiaries are subject to annual limitations and are restricted to 10% of statutory surplus or statutory earnings before recognizing realized investment gains of the individual insurance subsidiaries. At December 31, 2020, the Parent's insurance subsidiaries had an aggregate statutory surplus of \$92.5 million. Dividends were paid to Atlantic American by its subsidiaries totaling \$3.9 million and \$4.8 million in 2020 and 2019, respectively.

The Parent provides certain administrative, purchasing and other services to each of its subsidiaries. The amount charged to and paid by the subsidiaries for these services was \$6.7 million and \$7.2 million in 2020 and 2019, respectively. In addition, the Parent has a formal tax-sharing agreement with each of its insurance subsidiaries. A net total of \$1.8 million and \$3.3 million were paid to the Parent under the tax sharing agreement in 2020 and 2019, respectively.

The Company has two statutory trusts which exist for the exclusive purpose of issuing trust preferred securities representing undivided beneficial interests in the assets of the trusts and investing the gross proceeds of the trust preferred securities in Junior Subordinated Debentures. The outstanding \$18.0 million and \$15.7 million of Junior Subordinated Debentures mature on December 4, 2032 and May 15, 2033, respectively, are callable quarterly, in whole or in part, only at the option of the Company, and have an interest rate of three-month LIBOR plus an applicable margin. The margin ranges from 4.00% to 4.10%. At December 31, 2020, the effective interest rate was 4.28%. The obligations of the Company with respect to the issuances of the trust preferred securities represent a full and unconditional guarantee by the Parent of each trust's obligations with respect to the trust preferred securities. Subject to certain exceptions and limitations, the Company may elect from time to time to defer Junior Subordinated Debenture interest payments, which would result in a deferral of distribution payments on the related trust preferred securities. The Company has not made such an election.

The Company intends to pay its obligations under the Junior Subordinated Debentures using existing cash balances, dividend and tax-sharing payments from the operating subsidiaries, or from potential future financing arrangements.

At December 31, 2020, the Company had 55,000 shares of Series D preferred stock ("Series D Preferred Stock") outstanding. All of the shares of Series D Preferred Stock are held by an affiliate of the Company's controlling shareholder. The outstanding shares of Series D Preferred Stock have a redemption value of \$100 per share; accrue annual dividends at a rate of \$7.25 per share (payable in cash or shares of the Company's common stock at the option of the board of directors of the Company) and are cumulative. In certain circumstances, the shares of the Series D Preferred Stock may be convertible into an aggregate of approximately 1,378,000 shares of the Company's common stock, subject to certain adjustments and provided that such adjustments do not result in the Company issuing more than approximately 2,703,000 shares of common stock without obtaining prior shareholder approval; and are redeemable solely at the Company's option. The Series D Preferred Stock is not currently convertible. The Company had accrued, but unpaid, dividends on the Series D Preferred Stock of \$17,722 at December 31, 2020 and 2019. During each of 2020 and 2019, the Company paid Series D Preferred Stock dividends of \$0.4 million.

During 2020, Bankers Fidelity Life Insurance Company ("BFLIC") became a member of the Federal Home Loan Bank of Atlanta ("FHLB"), for the primary purpose of enhancing financial flexibility. As a member, BFLIC can obtain access to low-cost funding and also receive dividends on FHLB stock. The membership arrangement established initial credit availability of five percent of statutory admitted assets, or approximately \$8 million. Additional FHLB stock purchases may be required based upon the amount of funds borrowed from the FHLB. BFLIC would be required to post acceptable forms of collateral for any borrowings it makes from the FHLB. As of December 31, 2020, BFLIC had bonds with an amortized cost of \$2.0 million pledged as collateral to FHLB. To date, BFLIC has not made any borrowings from the FHLB.

Cash and cash equivalents increased from \$12.9 million at December 31, 2019 to \$19.3 million at December 31, 2020. The increase in cash and cash equivalents during 2020 was primarily attributable to an increase in net cash provided by operating activities of \$9.0 million. Partially offsetting the increase was \$1.8 million in net investment purchases of securities exceeding sales and maturity of securities. Also partially offsetting the increase were dividends paid on the Company's Series D Preferred Stock of \$0.4 million.

The Company believes that existing cash balances as well as the dividends, fees, and tax-sharing payments it expects to receive from its subsidiaries and, if needed, additional borrowings from financial institutions, will enable the Company to meet its liquidity requirements for the foreseeable future. Management is not aware of any current recommendations by regulatory authorities, which, if implemented, would have a material adverse effect on the Company's liquidity, capital resources or operations.

Expected Impact of COVID-19 on the Company's Financial Condition and Results of Operations

The duration and ultimate impact of the COVID-19 pandemic is unknown at this time and it is not possible for us to reliably estimate the impact on the financial condition, operating results or liquidity of the Company and its operating subsidiaries in future periods. However, we do not currently expect a significant decline in liquidity or operating results as a result of the disruption caused by the ongoing COVID-19 pandemic. To date, the most significant impact of COVID-19 on the Company's financial position has been volatility in the fair value of the Company's fixed maturity and equity investments due to disruption in the financial markets, as well as a reduction in the frequency of medical claims.

We expect that earned premiums could be adversely impacted by a weakened economy leading to a slowdown in new sales and reduced retention of insureds. Additionally, a number of states have issued bulletins that either encourage or require premium leniency such as extension of grace periods or moratoriums on cancellation of policies for non-payment. The Company does not expect a significant reduction or delay in payments and continues to monitor state required actions as they develop.

For the Company's property and casualty operations, the majority of premium revenue is derived from automobile liability and automobile physical damage lines of business written on a multi-year contract basis with state and local governments. Although we cannot predict with any certainty at this time, we do not expect a significant level of cancellations or non-renewals of our property and casualty contracts in the short term but recognize that a prolonged economic slowdown could adversely affect future results. During 2020, a certain automobile program was granted a partial premium refund as a result of a decline in usage. However, the Company expects the aforementioned decline in usage to be temporary in nature.

Benefits and losses in our property and casualty operations could be adversely impacted as a result of disruption caused by the COVID-19 pandemic. However, due to the nature of our primary product lines, the impact is not currently expected to be material. As a result, we do not currently expect a material adverse effect on operating results or liquidity in the property and casualty operations.

The majority of premium revenue in our life and health operations are derived from the senior market segment of the population, or those individuals age sixty-five and up, who maintain Medicare supplement and to a lesser extent, whole life insurance policies with the Company. We expect that earned premiums could be adversely impacted by the rise in unemployment and economic slowdown related to the COVID-19 pandemic and individual, business and government responses thereto, which could lead to a decline in new sales and reduced retention of insureds. As a result, we currently anticipate that the life and health operations may experience a marginal decline in earned premiums although the actual impact cannot be predicted with certainty at this time.

Unforeseen infectious diseases that impact large portions of a population can have an adverse impact on mortality and morbidity, and resultant benefits and losses incurred by the Company's life and health operations. Accordingly, the Company does anticipate incurring higher costs, potentially similar to prior influenza seasons, as it relates to life insurance claims. However, with much of the country sheltering in place over an extended period, the Company has experienced lower utilization of certain accident and health benefits, particularly in the Medicare supplement line of business. As a result, and although the actual impact cannot be predicted with certainty at this time, the Company does not expect significant adverse development in total benefits and losses incurred in its life and health operations.

In addition to the information set forth in this report, you should carefully consider the discussions of the COVID-19 pandemic and related economic developments presented in our Annual Report on Form 10-K for the year ended 2019, our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2020, June 30, 2020 and September 30, 2020 and in other reports we file with the SEC from time to time, all of which could materially affect our business, financial condition or future results.

New Accounting Pronouncements

See "Recently Issued Accounting Standards" in Note 1 of Notes to Consolidated Financial Statements.

Impact of Inflation

Insurance premiums are established before the amount of losses and loss adjustment expenses, or the extent to which inflation may affect such losses and expenses, are known. Consequently, in establishing its premiums, the Company attempts to anticipate the potential impact of inflation. If, for competitive reasons, premiums cannot be increased to anticipate inflation, this cost would be absorbed by the Company. Inflation also affects the rate of investment return on the Company's investment portfolio with a corresponding effect on investment income. To date, inflation has not had a material effect on the Company's results of operations in any of the periods presented.

Off-Balance Sheet Arrangements

In the normal course of business, the Company has structured borrowings that, in accordance with accounting principles generally accepted in the United States of America, are recorded on the Company's balance sheet at an amount that differs from the ultimate contractual obligation. See Note 8 of Notes to Consolidated Financial Statements.

Contractual Obligations

As a smaller reporting company, we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the table of contractual obligations required by this Item.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the information required by this Item.

Item 8. Financial Statements and Supplementary Data**INDEX TO FINANCIAL STATEMENTS**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Atlantic American Corporation
Atlanta, Georgia

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Atlantic American Corporation and subsidiaries (the Company) as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the two years in the period ended December 31, 2020 and the related notes and schedules (collectively, referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles (GAAP).

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 Public Company Accounting Oversight Board (United States) (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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

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

Valuation of Insurance Reserves for Losses and Claims (Claim Reserves)

As reflected on the consolidated balance sheet and discussed in Note 5 to the financial statements, the Company's insurance reserves for losses and claims (claim reserves), were \$79.1 million as of December 31, 2020. The Company's claim reserves relate primarily to its property casualty lines of business and Medicare supplement business. The process of establishing claim reserves requires the use of estimates and judgments based on circumstances underlying the insured loss at the date of accrual. Management's judgments include claims adjusters' evaluations for unpaid claims reported prior to the close of the accounting period, estimates of incurred but not reported (IBNR) claims based on past experience and estimates of loss adjustment expenses.

The principal considerations for our determination that the valuation of claim reserves is a critical audit matter are the high degree of judgment and subjectivity in auditing the actuarial methods and assumptions used in the valuation process, including assumptions around expected loss ratios and reported and paid loss emergence patterns.

Addressing the matter involved performing the following audit procedures, among others:

- Involving our actuarial specialists to assist in our procedures in:
 - o Evaluating the appropriateness of management's actuarial reserving methodologies and assumptions;
 - o Evaluating management's hindsight analyses;
 - o Comparing management's carried reserve to the range calculated by management's specialist for property casualty claim reserves;
- Testing the completeness and accuracy of data provided by management that served as the basis for the actuarial analyses on a sample basis; and
- Evaluating movement of the Company's recorded property casualty claim reserves within the Company's estimated reserve range year over year.

Valuation of Insurance Reserves for Future Policy Benefits (Policy Reserves)

As reflected on the consolidated balance sheet and discussed in Note 5 to the financial statements, the Company's insurance reserves for future policy benefits (policy reserves) were \$90.9 million as of December 31, 2020. Policy reserves are related to life and health insurance policies and are based upon significant assumptions including future investment yields, mortality rates, withdrawal rates and expenses after giving effect to possible risks of unexpected claim experience. These assumptions are based on historical experience modified as necessary to reflect anticipated trends and are generally established at contract inception.

The principal considerations for our determination that the valuation of policy reserves is a critical audit matter are the high degree of judgment required to assess certain assumptions that impact policy reserves and the complexity of the actuarial calculations.

Addressing the matter involved performing the following audit procedures, among others:

- Involving our actuarial specialists to assist in our procedures in:
 - o Evaluating whether the methodology applied by management is consistent in the aggregate with the methodology compliant with GAAP;
 - o Assessing the significant assumptions used by management for new insurance contracts issued during the current year by comparing the significant assumptions noted above to historical experience, observable market data or management's estimates of prospective changes to these assumptions;
 - o Performing an independent recalculation of policy reserves for a sample of contracts for comparison to management's estimate; and
 - o Evaluating management's loss recognition testing of aggregate reserve sufficiency.
- Testing the completeness and accuracy of data used by management in developing assumptions on a sample basis.

/s/ Dixon Hughes Goodman LLP

We have served as the Company's auditor since 2018.

Atlanta, Georgia

March 23, 2021

ATLANTIC AMERICAN CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2020	2019
	(Dollars in thousands, except share data)	
ASSETS		
Cash and cash equivalents	\$ 19,319	\$ 12,893
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost: \$222,461 and \$219,233)	254,106	232,472
Equity securities, at fair value (cost: \$6,393 and \$7,168)	18,716	22,922
Other invested assets (cost: \$3,765 and \$9,908)	3,238	9,960
Policy loans	1,975	2,007
Real estate	38	38
Investment in unconsolidated trusts	1,238	1,238
Total investments	279,311	268,637
Receivables:		
Reinsurance	29,086	32,135
Insurance premiums and other, net of allowance for doubtful accounts of \$198 and \$183 as of 2020 and 2019, respectively	27,512	13,134
Deferred income taxes, net	—	314
Deferred acquisition costs	39,611	38,861
Other assets	7,804	9,108
Intangibles	2,544	2,544
Total assets	\$ 405,187	\$ 377,626
LIABILITIES AND SHAREHOLDERS' EQUITY		
Insurance reserves and policyholder funds		
Future policy benefits	\$ 90,872	\$ 92,490
Unearned premiums	27,131	26,035
Losses and claims	79,147	81,448
Other policy liabilities	1,526	1,933
Total insurance reserves and policyholder funds	198,676	201,906
Accounts payable and accrued expenses	26,412	23,588
Deferred income taxes, net	1,301	—
Junior subordinated debenture obligations, net	33,738	33,738
Total liabilities	260,127	259,232
Commitments and contingencies (Note 16)		
Shareholders' equity:		
Preferred stock, \$1 par, 4,000,000 shares authorized; Series D preferred, 55,000 shares issued and outstanding; \$5,500 redemption value	55	55
Common stock, \$1 par, 50,000,000 shares authorized; 22,400,894 shares issued; 20,415,243 and 20,472,162 shares outstanding as of 2020 and 2019, respectively	22,401	22,401
Additional paid-in capital	57,437	57,820
Retained earnings	47,790	36,020
Accumulated other comprehensive income	25,000	10,459
Unearned stock grant compensation	(284)	(781)
Treasury stock, at cost, 1,985,651 and 1,928,732 shares as of 2020 and 2019, respectively	(7,339)	(7,580)
Total shareholders' equity	145,060	118,394
Total liabilities and shareholders' equity	\$ 405,187	\$ 377,626

See the accompanying notes to the consolidated financial statements.

ATLANTIC AMERICAN CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2020	2019
	(Dollars in thousands, except per share data)	
Revenue:		
Insurance premiums, net	\$ 183,539	\$ 181,925
Net investment income	7,744	8,979
Realized investment gains, net	7,420	1,574
Unrealized gains (losses) on equity securities, net	(3,431)	5,511
Other income	76	190
Total revenue	<u>195,348</u>	<u>198,179</u>
Benefits and expenses:		
Insurance benefits and losses incurred	119,876	139,225
Commissions and underwriting expenses	46,811	45,477
Interest expense	1,610	2,130
Other expense	11,548	11,754
Total benefits and expenses	<u>179,845</u>	<u>198,586</u>
Income (loss) before income taxes	15,503	(407)
Income tax expense (benefit)	<u>3,334</u>	<u>(21)</u>
Net Income (loss)	12,169	(386)
Preferred stock dividends	<u>(399)</u>	<u>(399)</u>
Net Income (loss) applicable to common shareholders	<u>\$ 11,770</u>	<u>\$ (785)</u>
Earnings (loss) per common share (basic)	<u>0.58</u>	<u>(0.04)</u>
Earnings (loss) per common share (diluted)	<u>\$ 0.56</u>	<u>\$ (0.04)</u>

See the accompanying notes to the consolidated financial statements.

ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,	
	2020	2019
	(Dollars in thousands)	
Net income (loss)	\$ 12,169	\$ (386)
Other comprehensive income:		
<u>Available-for-sale fixed maturity securities:</u>		
Gross unrealized holding gain arising in the period	18,791	23,130
Related income tax effect	(3,946)	(4,857)
Subtotal	14,845	18,273
Less: reclassification adjustment for net realized gains included in net income (loss)	(385)	(353)
Related income tax effect	81	74
Subtotal	(304)	(279)
Total other comprehensive income, net of tax	14,541	17,994
Total comprehensive income	\$ 26,710	\$ 17,608

See the accompanying notes to the consolidated financial statements.

ATLANTIC AMERICAN CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in thousands, except per share data)	Year Ended December 31,	
	2020	2019
Preferred stock:		
Balance, beginning of year	\$ 55	\$ 55
Balance, end of year	55	55
Common stock:		
Balance, beginning of year	22,401	22,401
Balance, end of year	22,401	22,401
Additional paid-in capital:		
Balance, beginning of year	57,820	57,414
Restricted stock grants, net of forfeitures; 20,000 and 355,000 restricted shares issued, as of 2020 and 2019, respectively	(376)	396
Issuance of 4,701 and 10,862 shares, as of 2020 and 2019, respectively, under stock plans	(7)	10
Balance, end of year	57,437	57,820
Retained earnings:		
Balance, beginning of year	36,020	37,208
Net Income (loss)	12,169	(386)
Dividends on common stock	—	(403)
Dividends accrued on preferred stock	(399)	(399)
Balance, end of year	47,790	36,020
Accumulated other comprehensive income (loss):		
Balance, beginning of year	10,459	(7,535)
Other comprehensive income, net of tax	14,541	17,994
Balance, end of year	25,000	10,459
Unearned Stock Grant Compensation:		
Balance, beginning of year	(781)	(186)
Restricted stock grants, net of forfeitures; 20,000 and 355,000 restricted shares issued, as of 2020 and 2019, respectively	60	(948)
Amortization of unearned compensation	437	353
Balance, end of year	(284)	(781)
Treasury Stock:		
Balance, beginning of year	(7,580)	(7,985)
Restricted stock grants, net of forfeitures; 20,000 and 355,000 restricted shares issued, as of 2020 and 2019, respectively	316	552
Purchase of 0 and 26,210 shares, as of 2020 and 2019, respectively, for treasury	—	(71)
Net shares acquired related to employee share-based compensation plans	(91)	(92)
Issuance of 4,701 and 10,862 shares, as of 2020 and 2019, respectively, shares under stock plans	16	16
Balance, end of year	(7,339)	(7,580)
Total shareholders' equity	\$ 145,060	\$ 118,394
Dividends declared on common stock per share	\$ —	\$ (.02)

See the accompanying notes to the consolidated financial statements.

ATLANTIC AMERICAN CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2020	2019
	(Dollars in thousands)	
Cash flows from operating activities:		
Net Income (loss)	\$ 12,169	\$ (386)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of deferred acquisition costs	19,393	17,288
Acquisition costs deferred	(20,143)	(19,055)
Realized investment gains, net	(7,420)	(1,574)
Unrealized (gains) losses on equity securities, net	3,431	(5,511)
Distributions received from equity method investees	—	379
Compensation expense related to share awards	437	353
Depreciation and amortization	980	996
Deferred income tax benefit	(2,250)	(913)
(Increase) decrease in receivables, net	1,349	(4,709)
Increase (decrease) in insurance reserves and policyholder funds	(3,230)	12,858
Increase in accounts payable and accrued expenses	2,324	3,472
Other, net	1,931	(5,005)
Net cash provided by (used in) operating activities	<u>8,971</u>	<u>(1,807)</u>
Cash flows from investing activities:		
Proceeds from investments sold	18,541	120,950
Proceeds from investments matured, called or redeemed	7,117	6,157
Investments purchased	(27,489)	(124,029)
Additions to property and equipment	(233)	(69)
Net cash (used in) provided by investing activities	<u>(2,064)</u>	<u>3,009</u>
Cash flows from financing activities:		
Payment of dividends on Series D preferred stock	(399)	(399)
Payment of dividends on common stock	—	(403)
Proceeds from shares issued under stock plans	9	26
Treasury stock acquired — share repurchase authorization	—	(71)
Treasury stock acquired — net employee share-based compensation	(91)	(92)
Net cash used in financing activities	<u>(481)</u>	<u>(939)</u>
Net increase in cash	6,426	263
Cash and cash equivalents at beginning of year	12,893	12,630
Cash and cash equivalents at end of year	<u>\$ 19,319</u>	<u>\$ 12,893</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 1,665	\$ 2,155
Cash paid for income taxes	\$ 3,883	\$ 1,662
Non-cash investing activities:		
Receivable from sale of other invested assets	\$ 12,678	\$ -

See the accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) which, for insurance companies, differ in some respects from the statutory accounting practices prescribed or permitted by regulatory authorities. These financial statements include the accounts of Atlantic American Corporation (“Atlantic American” or the “Parent”) and its subsidiaries (collectively with the Parent, the “Company”). All significant intercompany accounts and transactions have been eliminated in consolidation. Operating results achieved in any historical period are not necessarily indicative of results to be expected in any future period.

At December 31, 2020, the Parent owned four insurance subsidiaries, Bankers Fidelity Life Insurance Company and its wholly-owned subsidiary, Bankers Fidelity Assurance Company (together known as “Bankers Fidelity”), and American Southern Insurance Company and its wholly-owned subsidiary, American Safety Insurance Company (together known as “American Southern”), in addition to one non-insurance subsidiary, xCalibre Risk Services, Inc. The Parent has issued a guarantee of all liabilities of Bankers Fidelity.

Premium Revenue and Cost Recognition

Life insurance premiums are recognized as revenue when due; accident and health insurance premiums are recognized as revenue over the premium paying period and property and casualty insurance premiums are recognized as revenue over the period of the contract in proportion to the amount of insurance protection provided. Losses, benefits and expenses are accrued as incurred and are associated with premiums as they are earned so as to result in recognition of profits over the lives of the contracts. For traditional life insurance and long-duration health insurance, this association is accomplished by the provision of a future policy benefits reserve and the deferral and subsequent amortization of the costs of acquiring business, which are referred to as “deferred policy acquisition costs” (principally commissions, premium taxes, and other incremental direct costs of issuing policies). Deferred policy acquisition costs (“DAC”) are amortized over the estimated premium-paying period of the related policies using assumptions consistent with those used in computing the future policy benefits reserve. The Company provides for insurance benefits and losses on accident, health, and property-casualty claims based upon estimates of projected ultimate losses. DAC for property and casualty insurance and short-duration health insurance is amortized over the effective period of the related insurance policies. Contingent commissions, if contractually applicable, are ultimately payable to agents based on the underlying profitability of a particular insurance contract or a group of insurance contracts, and are periodically evaluated and accrued as earned. In periods in which revisions are made to the estimated loss reserves related to the particular insurance contract or group of insurance contracts subject to such commissions, corresponding adjustments are also made to the related accruals. DAC is expensed when such costs are deemed not to be recoverable from future premiums (for traditional life and long-duration health insurance) and from the related unearned premiums and investment income (for property and casualty and short-duration health insurance).

Intangibles

Intangibles consist of goodwill and other indefinite-lived intangible assets. Goodwill represents the excess of cost over the fair value of net assets acquired and is not amortized. Other indefinite-lived intangibles represent the value of licenses and are not amortized. The Company periodically reviews its goodwill and other indefinite-lived intangibles to determine if any adverse conditions exist that could indicate impairment. Conditions that could trigger impairment include, but are not limited to, a significant change in business climate that could affect the value of the related asset, an adverse action, or an assessment by a regulator. No impairment of the Company’s recorded intangibles was identified during any of the periods presented.

Investments

The Company’s investments in fixed maturities, which include bonds and redeemable preferred stocks, are classified as “available-for-sale” and, accordingly, are carried at fair value with the after-tax difference from amortized cost, as adjusted if applicable, reflected in shareholders’ equity as a component of accumulated other comprehensive income or loss. The Company’s equity securities, which include common and non-redeemable preferred stocks, are carried at fair value with changes in fair value reported in net income. The fair values of fixed maturities and equity securities are largely determined from publicly quoted market prices, when available, or independent broker quotations. As of December 31, 2020, the Company owned a certain equity security in the amount of \$143, with a valuation that was derived from techniques in which one or more of the significant inputs are unobservable. As of December 31, 2020, all fixed maturities were valued using publicly quoted market prices or techniques with observable inputs. Values that are not determined using quoted market prices inherently involve a greater degree of judgment and uncertainty and therefore ultimately greater price volatility than the value of securities with publicly quoted market prices. Policy loans are carried at unpaid principal balance and real estate is carried at historical cost. Other invested assets are comprised of investments in limited partnerships, limited liability companies, and real estate joint ventures, and are accounted for using the equity method. If the value of a fixed maturity security or other invested asset declines below its cost or amortized cost,

as applicable, and the decline is considered to be other than temporary, a realized loss is recorded to reduce the carrying value of the investment to its estimated fair value, which becomes the new cost basis.

Premiums and discounts related to investments are amortized or accreted over the life of the related investment as an adjustment to yield using the effective interest method. Dividends and interest income are recognized when earned or declared. The cost of securities sold is based on specific identification. Unrealized gains (losses) in the value of fixed maturities are accounted for as a direct increase (decrease) in accumulated other comprehensive income in shareholders' equity, net of deferred tax and, accordingly, have no effect on net income.

Income Taxes

Deferred income taxes represent the expected future tax consequences when the reported amounts of assets and liabilities are recovered or paid. They arise from differences between the financial reporting and tax basis of assets and liabilities and are adjusted for changes in tax laws and tax rates as those changes are enacted. The provision for income taxes represents the total amount of income taxes due related to the current year, plus the change in deferred income taxes during the year. A valuation allowance is recognized if, based on management's assessment of the relevant facts, it is more likely than not that some portion of a deferred tax asset will not be realized.

Earnings Per Common Share

Basic earnings per common share are based on the weighted average number of common and participating shares outstanding during the relevant period. Diluted earnings per common share are based on the weighted average number of common and participating shares outstanding during the relevant period, plus options outstanding, if applicable, using the treasury stock method and the assumed conversion of the Series D preferred stock, if dilutive. Unless otherwise indicated, earnings per common share amounts are presented on a diluted basis.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and investments in short-term, highly liquid securities with original maturities of three months or less from date of purchase.

Reinsurance

The Company enters into reinsurance agreements with other companies in the normal course of business. For each reinsurance agreement, the Company determines if the agreement provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. Reinsurance premiums and benefits paid or provided are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums, benefits and DAC are reported net of insurance ceded. Reinsurance premiums from assumed business are estimated based on information received from ceding companies and reinsureds. Any subsequent differences that arise regarding such estimates are recorded in the period in which they are determined.

Share-Based Transactions

For employee and director share-based compensation awards, the Company determines a grant date fair value based on the price of our publicly-traded common stock and recognize the related compensation expense, adjusted for actual forfeitures, in the consolidated statement of operations on a straight-line basis over the requisite service period for the entire award. For non-employee share-based compensation awards, the Company recognizes the impact during the period of performance, and the fair value of the award is measured as of the date performance is complete, which is the vesting date.

Treasury Stock

Treasury stock is reflected as a reduction of shareholders' equity at cost. The Company uses the first-in-first-out ("FIFO") purchase cost to determine the cost of treasury stock that is reissued. The Company includes any gains and losses in additional paid-in capital when treasury stock is reissued.

Recently Issued Accounting Standards

Adoption of New Accounting Standards

Fair Value Measurement – Changes to the Disclosure Requirements for Fair Value Measurement. In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"). This guidance removes the following disclosure requirements from Topic 820: (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, (2) the policy for timing of transfers between levels, and (3) the valuation processes for Level 3 fair value measurements. This disclosure also includes the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The Company adopted ASU 2018-13 as of January 1, 2020. The adoption of this ASU did not have an impact on the Company's consolidated financial statements.

Goodwill. In January 2017, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (“ASU 2017-04”). ASU 2017-04 is intended to simplify the evaluation of goodwill. The updated guidance requires recognition and measurement of goodwill impairment based on the excess of the carrying value of the reporting unit compared to its estimated fair value, with the amount of the impairment not to exceed the carrying value of the reporting unit’s goodwill. Under the prior accounting guidance, if the reporting unit’s carrying value exceeds its estimated fair value, the Company allocates the fair value of the reporting unit to all of the assets and liabilities of the reporting unit to determine an implied goodwill value. An impairment loss is then recognized for the excess, if any, of the carrying value of the reporting unit’s goodwill compared to the implied goodwill value. The Company adopted ASU 2017-04 as of January 1, 2020. The adoption of this ASU did not have an impact on the Company’s consolidated financial statements.

Future Adoption of New Accounting Standards

Reference Rate Reform. In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting (“ASU 2020-04”). This guidance provides optional expedients and exceptions for applying GAAP to investments, derivatives, or other transactions that reference the London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued because of reference rate reform. Along with the optional expedients, the amendments include a general principle that permits an entity to consider contract modifications due to reference reform to be an event that does not require contract re-measurement at the modification date or reassessment of a previous accounting determination. Additionally, a company may make a one-time election to sell, transfer, or both sell and transfer debt securities classified as held to maturity that reference a rate affected by reference rate reform and that were classified as held to maturity before January 1, 2020. This standard may be elected over time through December 31, 2022 as reference rate reform activities occur. The Company is currently assessing the effect of adopting this guidance on its financial condition and results of operations.

Investments – Equity Securities. In January 2020, the FASB issued ASU No. 2020-01 (“ASU 2020-01”) Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. This update, among others, clarifies the interaction of the accounting for equity securities under Topic 321 and investments under the equity method of accounting in Topic 323 when there is a change in level of ownership or degree of influence. ASU 2020-01 is effective for the Company beginning with the first quarter of 2021 and will be applied prospectively. Early adoption is permitted. This guidance is not expected to have a material impact on the Company’s consolidated financial statements.

Income Taxes – Simplifying the Accounting for Income Taxes. In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (“ASU 2019-12”). This updated guidance is intended to simplify the accounting for income taxes by removing several exceptions contained in existing guidance and amending other existing guidance to simplify several other income tax accounting matters. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2020, although earlier adoption is permitted. The Company expects to adopt the updated guidance January 1, 2021, and does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

Accounting for Long-Duration Contracts. In August 2018, the FASB issued ASU No. 2018-12, Financial Services — Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts (“ASU 2018-12”). This guidance (1) improves the timeliness of recognizing changes in the liability for future policy benefits and modifies the rate used to discount future cash flows, (2) simplifies and improves the accounting for certain market-based options or guarantees associated with deposit (or account balance) contracts, (3) simplifies the amortization of deferred acquisition costs, and (4) improves the effectiveness of the required disclosures. ASU 2018-12 is effective for interim and annual reporting periods beginning after December 15, 2024, although earlier adoption is permitted. The Company has not yet determined the method or timing for adoption or estimated the impact on the Company’s consolidated financial statements.

Financial Instruments – Credit Losses. In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 requires entities to measure all expected credit losses for financial instruments (including reinsurance recoverable and policy loans) held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Under current GAAP, entities generally recognize credit losses when it is probable that the loss has been incurred. ASU 2016-13 will remove all recognition thresholds and will require entities to recognize an allowance for credit losses equal to the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the entity expects to collect over the instrument’s contractual life. ASU 2016-13 also amends the credit loss measurement guidance for available-for-sale (“AFS”) debt securities and beneficial interests in securitized financial assets. Credit losses on AFS debt securities carried at fair value will continue to be measured as an other than temporary impairment (“OTTI”) when incurred; however, the losses will be recognized through an allowance and no longer as an adjustment to the cost basis. Recoveries of OTTI will be recognized as reversals of valuation allowances and no longer accreted as investment income through an adjustment to the investment yield. The allowance on AFS debt securities cannot cause the net carrying value to be below fair value and, therefore, it is possible that increases in fair value due to decreases in market interest rates could cause the reversal of a valuation allowance and increase net income. The new guidance will also require purchased financial assets with a more-than-insignificant amount of credit deterioration since original issuance to be recorded based on contractual amounts due and an initial allowance recorded at the date of purchase. For the Company, the amendments in ASU 2016-13 will be effective for interim and annual reporting periods beginning after

December 15, 2022. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company has not yet determined the timing of adoption. Implementation matters yet to be addressed include determining the impact of valuation allowances on the effective interest method for recognizing interest income from AFS debt securities as well as updating our investment accounting system functionality to adjust valuation allowances based on changes in fair value. The estimated effect on the Company's consolidated financial statements can only be estimated based on the current investment portfolio at any given point in time, and accordingly, has not currently been determined.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Significant estimates and assumptions are used in developing and evaluating deferred income taxes, deferred acquisition costs, insurance reserves, investments, and receivables, among others, and actual results could differ materially from management's estimates.

Note 2. Investments

The following tables set forth the estimated fair value, gross unrealized gains, gross unrealized losses and cost or amortized cost of the Company's investments in fixed maturities and equity securities, aggregated by type and industry, as of December 31, 2020 and December 31, 2019.

Fixed maturities were comprised of the following:

	2020			
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Fixed maturities:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 30,762	\$ 1,381	\$ 26	\$ 29,407
Obligations of states and political subdivisions	11,802	898	—	10,904
Corporate securities:				
Utilities and telecom	30,359	4,423	—	25,936
Financial services	78,258	9,811	6	68,453
Other business – diversified	41,145	5,689	15	35,471
Other consumer – diversified	61,530	9,479	47	52,098
Total corporate securities	211,292	29,402	68	181,958
Redeemable preferred stocks:				
Other consumer – diversified	250	58	—	192
Total redeemable preferred stocks	250	58	—	192
Total fixed maturities	\$ 254,106	\$ 31,739	\$ 94	\$ 222,461

2019				
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Fixed maturities:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 20,259	\$ 467	\$ 53	\$ 19,845
Obligations of states and political subdivisions	11,940	371	53	11,622
Corporate securities:				
Utilities and telecom	26,648	2,404	32	24,276
Financial services	73,917	4,249	57	69,725
Other business – diversified	41,706	2,335	98	39,469
Other consumer – diversified	57,752	3,702	54	54,104
Total corporate securities	200,023	12,690	241	187,574
Redeemable preferred stocks:				
Other consumer – diversified	250	58	—	192
Total redeemable preferred stocks	250	58	—	192
Total fixed maturities	\$ 232,472	\$ 13,586	\$ 347	\$ 219,233

Bonds having an amortized cost of \$10,670 and \$10,669 and included in the tables above were on deposit with insurance regulatory authorities at December 31, 2020 and 2019, respectively, in accordance with statutory requirements. Additionally, bonds having an amortized cost of \$1,997 and \$0 and included in the tables above were pledged as collateral to FHLB at December 31, 2020 and 2019, respectively.

2020				
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost or Amortized Cost
Equity securities:				
Common and non-redeemable preferred stocks:				
Financial services	2,111	351	—	1,760
Other business – diversified	16,605	11,972	—	4,633
Total equity securities	\$ 18,716	\$ 12,323	\$ —	\$ 6,393

2019				
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost or Amortized Cost
Equity securities:				
Common and non-redeemable preferred stocks:				
Financial services	3,159	624	—	2,535
Other business – diversified	19,763	15,130	—	4,633
Total equity securities	\$ 22,922	\$ 15,754	\$ —	\$ 7,168

The carrying value and amortized cost of the Company's investments in fixed maturities at December 31, 2020 and 2019 by contractual maturity were as follows. Actual maturities may differ from contractual maturities because issuers may call or prepay obligations with or without call or prepayment penalties.

2020		2019	
Carrying Value	Amortized Cost	Carrying Value	Amortized Cost
Due in one year or less	\$ 2,041	\$ —	\$ —
Due after one year through five years	18,373	14,664	14,280
Due after five years through ten years	89,892	77,934	73,521
Due after ten years	124,609	130,680	122,321
Asset backed securities	19,191	9,194	9,111
Totals	\$ 254,106	\$ 232,472	\$ 219,233

The following tables present the Company's unrealized loss aging for securities by type and length of time the security was in a continuous unrealized loss position as of December 31, 2020 and 2019.

	2020					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 7,045	\$ 26	\$ —	\$ —	\$ 7,045	\$ 26
Corporate securities	4,602	68	—	—	4,602	68
Total temporarily impaired securities	<u>\$ 11,647</u>	<u>\$ 94</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 11,647</u>	<u>\$ 94</u>

	2019					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 3,432	\$ 22	\$ 3,533	\$ 31	\$ 6,965	\$ 53
Obligations of states and political subdivisions	3,106	53	—	—	3,106	53
Corporate securities	23,245	145	2,504	96	25,749	241
Total temporarily impaired securities	<u>\$ 29,783</u>	<u>\$ 220</u>	<u>\$ 6,037</u>	<u>\$ 127</u>	<u>\$ 35,820</u>	<u>\$ 347</u>

The evaluation for an OTTI is a quantitative and qualitative process, which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. Potential risks and uncertainties include, among other things, changes in general economic conditions, an issuer's financial condition or near term recovery prospects and the effects of changes in interest rates. In evaluating a potential impairment, the Company considers, among other factors, management's intent and ability to hold the securities until price recovery, the nature of the investment and the expectation of prospects for the issuer and its industry, the status of an issuer's continued satisfaction of its obligations in accordance with their contractual terms, and management's expectation as to the issuer's ability and intent to continue to do so, as well as ratings actions that may affect the issuer's credit status.

There were no OTTI charges recorded during the years ended December 31, 2020 and 2019.

As of December 31, 2020 and 2019, there were twenty and thirty securities, respectively, in an unrealized loss position which primarily included certain of the Company's investments in fixed maturities within the financial services, other diversified business and other diversified consumer sectors. The decrease in the number and value of securities in an unrealized loss position during the year ended December 31, 2020, was primarily attributable to improvement in market values in certain of the Company's fixed maturity securities as a result of a declining interest rate environment. The Company does not currently intend to sell nor does it expect to be required to sell any of the securities in an unrealized loss position. Based upon the Company's expected continuation of receipt of contractually required principal and interest payments and its intent and ability to retain the securities until price recovery, as well as the Company's evaluation of other relevant factors, including those described above, the Company has deemed these securities to be temporarily impaired as of December 31, 2020.

Investment income was earned from the following sources:

	2020	2019
Fixed maturities	\$ 8,646	\$ 8,485
Equity securities	141	282
Other	(788)	319
	<u>7,999</u>	<u>9,086</u>
Investment expenses	255	107
Net investment income	<u>\$ 7,744</u>	<u>\$ 8,979</u>

A summary of realized investment gains (losses) follows:

	2020			
	Fixed Maturities	Equity Securities	Other Invested Assets	Total
Gains	\$ 835	\$ 88	\$ 6,948	\$ 7,871
Losses	(450)	(1)	—	(451)
Realized investment gains, net	<u>\$ 385</u>	<u>\$ 87</u>	<u>\$ 6,948</u>	<u>\$ 7,420</u>

	2019			
	Fixed Maturities	Equity Securities	Other Invested Assets	Total
Gains	\$ 2,003	\$ 1,221	\$ —	\$ 3,224
Losses	(1,650)	—	—	(1,650)
Realized investment gains, net	<u>\$ 353</u>	<u>\$ 1,221</u>	<u>\$ —</u>	<u>\$ 1,574</u>

Proceeds from the sales of available-for-sale fixed maturities were as follows:

	2020	2019
Sales proceeds	\$ 18,504	\$ 117,530
Gross gains	835	2,003
Gross losses	(450)	(1,650)

Proceeds from the sales of available-for-sale equity securities were as follows:

	2020	2019
Sales proceeds	\$ 5	\$ 2,568
Gross gains	—	1,113
Gross losses	(1)	—

Sales of available-for-sale securities in 2020 and 2019 were primarily a result of improving the overall risk versus return profile of the portfolio. In addition, the Company sold its interest in a certain limited liability company held as other invested assets to a third-party. The transaction closed prior to December 31, 2020. The Company recorded gross realized gains on this sale of \$6.9 million and proceeds of \$12.7 million which settled after year end.

The following table presents the portion of unrealized gains (losses) related to equity securities still held for the years ended December 31, 2020 and 2019.

	2020	2019
Net realized and unrealized gains (losses) recognized during the period on equity securities	\$ (3,344)	\$ 6,732
Less: Net realized gains (losses) recognized during the period on equity securities sold during the period	87	1,221
Unrealized gains (losses) on equity securities, net	<u>\$ (3,431)</u>	<u>\$ 5,511</u>

The Company's bond portfolio included 97% investment grade securities, as defined by the NAIC, at December 31, 2020.

Variable Interest Entities

The Company holds passive interests in a number of entities that are considered to be variable interest entities ("VIEs") under GAAP guidance. The Company's VIE interests principally consist of interests in limited partnerships and limited liability companies formed for the purpose of achieving diversified equity returns. The Company's VIE interests, carried as a part of other invested assets, totaled \$3,238 and \$9,960 at December 31, 2020 and 2019, respectively. The Company's VIE interests, carried as a part of investment in unconsolidated subsidiaries, totaled \$1,238 at December 31, 2020 and 2019.

The Company does not have power over the activities that most significantly impact the economic performance of these VIEs and thus is not the primary beneficiary. Therefore, the Company has not consolidated these VIEs. The Company's involvement with each VIE is limited to its direct ownership interest in the VIE. The Company has no arrangements with any of the VIEs to provide other financial support to or on behalf of the VIE. The Company's maximum loss exposure relative to these investments was limited to the carrying value of the Company's investment in the VIEs, which amount to \$4,476 and \$11,198, at December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, the Company had outstanding commitments totaling \$1,997, whereby the Company is committed to fund these investments and may be called by such VIEs during the commitment period to fund the purchase of new investments and partnership expenses.

Note 3. Disclosures About Fair Value of Financial Instruments

The estimated fair values have been determined by the Company using available market information from various market sources and appropriate valuation methodologies as of the respective dates. However, considerable judgment is necessary to interpret market data and to develop the estimates of fair value. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, the estimates presented herein are not necessarily indicative of the amounts which the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following describes the fair value hierarchy and provides information as to the extent to which the Company uses fair value to measure the value of its financial instruments and information about the inputs used to value those financial instruments. The fair value hierarchy prioritizes the inputs in the valuation techniques used to measure fair value into three broad levels.

Level 1	Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. The Company's financial instruments valued using Level 1 criteria include cash equivalents and exchange traded common stocks.
Level 2	Observable inputs, other than quoted prices included in Level 1, for an asset or liability or prices for similar assets or liabilities. The Company's financial instruments valued using Level 2 criteria include significantly most of its fixed maturities, which consist of U.S. Treasury securities, U.S. Government securities, obligations of states and political subdivisions, and certain corporate fixed maturities, as well as its non-redeemable preferred stocks. In determining fair value measurements of its fixed maturities and non-redeemable preferred stocks using Level 2 criteria, the Company utilizes data from outside sources, including nationally recognized pricing services and broker/dealers. Prices for the majority of the Company's Level 2 fixed maturities and non-redeemable preferred stocks were determined using unadjusted prices received from pricing services that utilize models where the significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities) or can be corroborated by observable market data.
Level 3	Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). Fair value is based on criteria that use assumptions or other data that are not readily observable from objective sources. With little or no observable market, the determination of fair values uses considerable judgment and represents the Company's best estimate of an amount that could be realized in a market exchange for the asset or liability. The Company's financial instruments valued using Level 3 criteria consist of one fixed maturity security and one equity security. As of December 31, 2020 and December 31, 2019, the value of the fixed maturity valued using Level 3 criteria was \$0 for both years. As of December 31, 2020 and December 31, 2019, the value of the equity security valued using Level 3 criteria was \$143 and \$0, respectively. The equity security is not traded and valued at cost. The use of different criteria or assumptions regarding data may have yielded materially different valuations.

Recurring Fair Value Measurements

Cash Equivalents. The carrying amount approximates fair value due to the short-term nature of the instruments.

Fixed Maturities and Common and Non-Redeemable Preferred Stocks. The carrying amount is determined from publicly quoted market prices. Certain fixed maturities do not have publicly quoted values and consist solely of issuances of pooled debt obligations of multiple, smaller financial services companies. They are not actively traded and valuation techniques used to measure fair value are based on future estimated cash flows discounted at reasonable estimated rates of interest. Other qualitative and quantitative information is also considered, as applicable.

Nonrecurring Fair Value Measurements

Non-publicly Traded Invested Assets. The fair value of investments in certain limited partnerships which are included in other invested assets on the consolidated balance sheet were determined by officers of those limited partnerships.

Policy Loans. Policy loans, which are categorized as Level 2 fair value measurements, are carried at the unpaid principal balances.

Junior Subordinated Debentures. The fair value is estimated based on observable interest rates and yields for debt instruments having similar characteristics.

As of December 31, 2020, financial instruments carried at fair value were measured on a recurring basis as summarized below:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Fixed maturities	\$ —	\$ 254,106	\$ —	\$ 254,106
Equity securities	18,573	—	143	18,716
Cash equivalents	12,010	—	—	12,010
Total	\$ 30,583	\$ 254,106	\$ 143	\$ 284,832

As of December 31, 2019, financial instruments carried at fair value were measured on a recurring basis as summarized below:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Fixed maturities	\$ —	\$ 232,472	\$ —	\$ 232,472
Equity securities	22,922	—	—	22,922
Cash equivalents	7,173	—	—	7,173
Total	\$ 30,095	\$ 232,472	\$ —	\$ 262,567

The Company does not have any fixed maturities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of years ended December 31, 2020 and 2019.

The following table sets forth the carrying amount, estimated fair value and level within the fair value hierarchy of the Company's financial instruments as of December 31, 2020 and 2019.

	Level in Fair Value Hierarchy ⁽¹⁾	2020		2019	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:					
Cash and cash equivalents	Level 1	\$ 19,319	\$ 19,319	\$ 12,893	\$ 12,893
Fixed maturities	(1)	254,106	254,106	232,472	232,472
Equity securities	(1)	18,716	18,716	22,922	22,922
Other invested assets	Level 3	3,238	3,238	9,960	9,960
Policy loans	Level 2	1,975	1,975	2,007	2,007
Investments in unconsolidated trusts	Level 2	1,238	1,238	1,238	1,238
Liabilities:					
Junior Subordinated Debentures, net	Level 2	33,738	32,297	33,738	35,977

(1) See the aforementioned information for a description of the fair value hierarchy as well as a disclosure of levels for classes of these financial assets.

Note 4. Deferred Policy Acquisition Costs

The following table presents a rollforward of deferred policy acquisition costs by segment for the years ended December 31.

	2020		2019	
	American Southern	Bankers Fidelity	American Southern	Bankers Fidelity
Deferred policy acquisition costs:				
Balance, beginning of year	\$ 1,979	\$ 36,882	\$ 2,047	\$ 35,047
Capitalization	9,910	10,233	8,761	10,294
Amortization	(9,590)	(9,803)	(8,829)	(8,459)
Balance, end of year	\$ 2,299	\$ 37,312	\$ 1,979	\$ 36,882

Note 5. Insurance Reserves and Policyholder Funds

The following table presents the Company's reserves for life, accident and health, and property and casualty losses, claims and loss adjustment expenses at December 31, 2020 and 2019.

	2020	2019	Amount of Insurance In Force, Net	
			2020	2019
Future policy benefits				
Life insurance policies:				
Ordinary life and annuities	\$ 54,442	\$ 55,403	\$ 199,827	\$ 212,774
Group life	91	93	83,533 ⁽¹⁾	33,508
	<u>54,533</u>	<u>55,496</u>	<u>\$ 283,360</u>	<u>\$ 246,282</u>
Accident and health insurance policies	<u>36,339</u>	<u>36,994</u>		
	90,872	92,490		
Unearned premiums	27,131	26,035		
Losses, claims and loss adjustment expenses	79,147	81,448		
Other policy liabilities	1,526	1,933		
Total insurance reserves and policyholder funds	<u>\$ 198,676</u>	<u>\$ 201,906</u>		

(1) The group life in force amounts increased significantly during 2020. However, the impact on future policy benefits is not significant due to the deferred premium offset to the gross benefit reserve.

Annualized premiums for accident and health insurance policies were \$109,430 and \$112,734 at December 31, 2020 and 2019, respectively.

Future Policy Benefits

Liabilities for life insurance future policy benefits are based upon assumed future investment yields, mortality rates, and withdrawal rates after giving effect to possible risks of unexpected claim experience. The assumed mortality, withdrawal rates and expenses are based upon the Company's experience modified as necessary to reflect anticipated trends and are generally established at contract inception. The interest rates assumed for life, accident and health future policy benefits are generally: (i) 2.5% to 5.5% for issues prior to 1977, (ii) 7% graded to 5.5% for 1977 through 1979 issues, (iii) 9% for 1980 through 1987 issues, (iv) 5% to 7% for 1988 through 2009 issues, (v) 4% for 2010 through 2012 issues, and (vi) 3.5% to 4.0% for 2013 through 2020 issues.

Loss and Claim Reserves

Loss and claim reserves represent estimates of projected ultimate losses and are based upon: (a) management's estimate of ultimate liability and claims adjusters' evaluations for unpaid claims reported prior to the close of the accounting period, (b) estimates of IBNR claims based on past experience, and (c) estimates of loss adjustment expenses. The estimated liability is periodically reviewed by management and updated, with changes to the estimated liability recorded in the statement of operations in the year in which such changes are known.

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

	2020	2019
Balance at January 1	\$ 81,448	\$ 72,612
Less: Reinsurance recoverable on unpaid losses	(18,339)	(14,354)
Net balance at January 1	<u>63,109</u>	<u>58,258</u>
Incurred related to:		
Current year	122,626	137,305
Prior years	(3,480) ⁽¹⁾	(80) ⁽²⁾
Total incurred	<u>119,146</u>	<u>137,225</u>
Paid related to:		
Current year	84,518	95,489
Prior years	36,190	36,885
Total paid	<u>120,708</u>	<u>132,374</u>
Net balance at December 31	61,547	63,109
Plus: Reinsurance recoverable on unpaid losses	17,600	18,339
Balance at December 31	<u>\$ 79,147</u>	<u>\$ 81,448</u>

(1) Prior years' development was primarily the result of favorable development in the loss and claim reserves for the Medicare supplement line of business in Bankers Fidelity. Rate increases on existing business and the resultant improvement in rate adequacy was more favorable than expected. Additionally, the Company experienced favorable development in the surety line of business in American Southern due to a reduction in exposure coupled with recoveries on certain prior year losses.

- (2) Prior years' development was primarily the result of better than expected development on prior years loss and claim reserves for certain lines of business in American Southern, somewhat offset by unfavorable development on prior years loss and claim reserves for the Medicare Supplement line of business in Bankers Fidelity.

Following is a reconciliation of total incurred losses to total insurance benefits and losses incurred:

	2020	2019
Total incurred losses	\$ 119,146	\$ 137,225
Cash surrender value and matured endowments	1,198	1,362
Benefit reserve changes	(468)	638
Total insurance benefits and losses incurred	<u>\$ 119,876</u>	<u>\$ 139,225</u>

Liability for Unpaid Losses, Claims and Loss Adjustment Expenses

The following is information, by significant product lines, about incurred and paid claims development as of December 31, 2020, net of reinsurance, as well as the cumulative number of reported claims and the total of IBNR reserves plus expected development on reported claims included within the net incurred claims amounts. The information presented for the years ended December 31, 2015 and prior is presented as supplementary information and is unaudited.

Medicare Supplement

Accident Year	For the Years Ended December 31,										As of December 31, 2020	
	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance										IBNR Reserves	Cumulative Number of Reported Claims
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
2011	\$38,188	\$38,296	\$38,360	\$38,327	\$38,316	\$38,302	\$38,299	\$38,297	\$38,297	\$ 38,297	\$ —	664,056
2012		50,021	50,996	51,021	50,998	50,989	50,987	50,985	50,984	50,984	—	867,050
2013			56,974	56,970	57,034	57,023	57,021	57,016	57,015	57,014	—	957,363
2014				57,179	56,938	56,981	56,981	56,976	56,977	56,976	—	939,478
2015					55,482	54,939	54,993	54,990	54,984	54,985	—	898,374
2016						58,849	59,851	63,226	63,225	63,221	—	1,036,769
2017							67,960	69,655	69,643	69,635	—	1,510,654
2018								79,140	80,404	80,361	—	1,782,982
2019									88,765	87,028	172	2,242,156
2020										75,857	12,728	1,620,697
										<u>\$634,358</u>		

Accident Year	Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	\$ 31,720	\$ 38,296	\$ 38,360	\$ 38,327	\$ 38,316	\$ 38,302	\$ 38,299	\$ 38,297	\$ 38,297	\$ 38,297
2012		42,267	50,996	51,021	50,998	50,989	50,987	50,985	50,984	50,984
2013			47,770	56,970	57,034	57,023	57,021	57,016	57,015	57,014
2014				48,024	56,938	56,981	56,981	56,976	56,977	56,976
2015					45,430	54,876	54,993	54,990	54,984	54,985
2016						49,165	59,747	63,226	63,225	63,221
2017							57,696	69,517	69,643	69,635
2018								66,565	80,222	80,361
2019									72,333	86,856
2020										63,129
										<u>\$ 621,458</u>
										<u>\$ 12,900</u>
										Liabilities for losses, claims and loss adjustment expenses, net of reinsurance

The cumulative number of reported claims for the Medicare supplement line of business is the number of distinct claims incurred and submitted to Medicare for payment in the given year. Multiple payments on the same claim are not counted in the frequency information. Estimated ultimate claims incurred, using claims data reported during each month of any given year, are calculated using the chain ladder method modified to use seasonality and trend-adjusted expected claims for the final four months. Additional adjustments to the estimated ultimate claims incurred are then applied to account for seasonal changes in billing and payment frequencies. The IBNR reserve is calculated as estimated ultimate claims less paid claims and claims in course of settlement. Thirty-six months of loss data are used to develop the estimated ultimate incurred claims. Similar approaches are used for other less significant health products, subject to modifications to account for unique aspects of the product.

Automobile Liability

Accident Year	For the Years Ended December 31,										As of December 31, 2020	
	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance										IBNR Reserves	Cumulative Number of Reported Claims
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
2011	\$ 12,263	\$ 13,802	\$ 13,235	\$ 13,289	\$ 13,281	\$ 13,495	\$ 13,385	\$ 13,330	\$ 13,329	\$ 13,328	\$ —	2,134
2012		12,980	15,007	14,108	13,707	13,313	13,343	13,357	13,373	13,373	—	2,343
2013			18,664	20,702	21,096	21,823	21,352	21,020	20,972	20,972	—	3,267
2014				20,812	21,881	22,041	22,353	21,682	22,080	22,100	48	3,544
2015					18,521	19,857	20,017	20,007	20,086	20,680	75	3,525
2016						20,549	21,275	21,846	22,388	22,245	140	3,842
2017							22,179	24,212	23,766	25,180	801	3,772
2018								24,284	25,682	27,338	2,072	3,578
2019									25,241	24,045	3,117	3,479
2020										22,416	12,187	2,183
										<u>\$ 211,677</u>		

Accident Year	Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	\$ 4,205	\$ 7,934	\$ 9,858	\$ 12,071	\$ 13,039	\$ 13,106	\$ 13,199	\$ 13,330	\$ 13,329	\$ 13,328
2012		4,627	8,791	11,507	12,932	13,197	13,211	13,288	13,373	13,373
2013			5,144	12,193	16,782	19,407	20,382	20,982	20,972	20,972
2014				6,822	13,807	17,554	20,177	20,878	21,735	21,813
2015					6,226	11,878	14,938	17,612	19,557	20,234
2016						6,796	13,141	16,397	19,613	21,408
2017							7,401	16,317	20,221	22,778
2018								6,989	15,647	21,121
2019									7,305	14,694
2020										5,172
										<u>\$ 174,893</u>
										<u>\$ 36,784</u>
										Liabilities for losses, claims and loss adjustment expenses, net of reinsurance

Automobile Physical Damage

Accident Year	For the Years Ended December 31,					As of December 31, 2020	
	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance					IBNR Reserves	Cumulative Number of Reported Claims
	2016	2017	2018	2019	2020		
2016	\$ 6,877	\$ 6,386	\$ 6,352	\$ 6,289	\$ 6,289	\$ —	1,269
2017		6,257	5,933	5,857	5,860	—	1,324
2018			7,805	7,530	7,447	—	1,452
2019				8,526	8,026	2	1,485
2020					10,288	177	1,526
					<u>\$ 37,910</u>		

Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance						
Accident Year	2016	2017	2018	2019	2020	
2016	\$ 5,804	\$ 6,353	\$ 6,349	\$ 6,289	\$ 6,289	
2017		5,215	5,914	5,856	5,860	
2018			6,344	7,510	7,446	
2019				6,360	8,005	
2020					8,347	
					<u>\$ 35,947</u>	
All outstanding liabilities before 2016, net of reinsurance						1
Liabilities for losses, claims and loss adjustment expenses, net of reinsurance					<u>\$</u>	<u>1,964</u>

General Liability

Accident Year	For the Years Ended December 31,										As of December 31, 2020	
	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance										IBNR Reserves	Cumulative Number of Reported Claims
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
2011	\$ 3,022	\$ 1,723	\$ 1,452	\$ 1,338	\$ 1,174	\$ 1,242	\$ 1,327	\$ 1,335	\$ 1,400	\$ 1,534	\$ 20	210
2012		4,055	1,305	1,269	1,270	1,214	1,333	1,344	1,377	1,388	25	161
2013			3,461	728	926	817	865	820	945	904	11	197
2014				3,744	501	557	476	406	497	523	6	194
2015					4,421	1,037	1,227	1,044	867	855	—	146
2016						3,119	1,148	736	608	621	1	92
2017							1,490	488	513	738	68	82
2018								1,656	333	198	40	75
2019									1,916	707	261	82
2020										2,223	1,749	62
										<u>\$ 9,691</u>		

Accident Year	Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	\$ 295	\$ 412	\$ 582	\$ 835	\$ 1,161	\$ 1,169	\$ 1,278	\$ 1,285	\$ 1,325	\$ 1,426
2012		371	707	847	1,034	1,113	1,219	1,260	1,269	1,280
2013			104	339	579	811	791	803	805	855
2014				171	299	331	369	373	493	498
2015					98	259	464	664	863	855
2016						116	203	568	608	617
2017							75	136	365	556
2018								65	90	115
2019									41	209
2020										208
										\$ 6,619
										All outstanding liabilities before 2011, net of reinsurance 343
										Liabilities for losses, claims and loss adjustment expenses, net of reinsurance \$ 3,415

Surety.

Accident Year	For the Years Ended December 31,										As of December 31, 2020	
	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance										IBNR Reserves	Cumulative Number of Reported Claims
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
2011	\$ 4,422	\$ 4,786	\$ 5,080	\$ 5,092	\$ 4,966	\$ 5,031	\$ 5,112	\$ 5,111	\$ 5,112	\$ 5,163	\$ 7	128
2012		4,979	4,767	5,396	5,345	4,869	4,880	4,892	4,925	4,944	2	89
2013			3,060	2,007	2,743	2,947	2,866	2,809	2,765	2,757	—	58
2014				3,214	3,130	2,990	2,760	2,685	2,617	2,818	43	54
2015					1,902	1,630	1,400	1,359	1,406	1,310	6	50
2016						3,314	1,812	1,865	1,876	1,865	—	46
2017							4,677	3,671	3,799	3,629	13	58
2018								3,528	1,938	1,381	6	62
2019									2,130	657	128	30
2020										2,263	1,887	20
										\$ 26,787		

Accident Year	Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	\$ 1,031	\$ 3,207	\$ 4,622	\$ 4,748	\$ 4,939	\$ 5,022	\$ 5,109	\$ 5,111	\$ 5,112	\$ 5,117
2012		2,257	4,581	4,856	5,331	4,869	4,880	4,878	4,916	4,934
2013			323	1,010	1,369	2,763	2,789	2,749	2,765	2,757
2014				1,331	2,327	2,727	2,739	2,664	2,593	2,562
2015					641	856	1,127	1,125	1,128	1,271
2016						1,054	1,732	1,772	1,873	1,862
2017							1,971	3,255	3,523	3,545
2018								1,157	1,454	1,361
2019									259	395
2020										97
										\$ 23,901
										All outstanding liabilities before 2011, net of reinsurance 54
										Liabilities for losses, claims and loss adjustment expenses, net of reinsurance \$ 2,940

For the property and casualty lines of business, the number of claims presented above equals the number of occurrences by type of claim reported to the Company. The number of claims reported during a given year corresponds to the number of claims records opened during the year. Frequency information is maintained on a cumulative basis by accident year by line of business. For automobile claims, a claim count is separately maintained for bodily injury, property damage and physical damage claims. The Company has consistently monitored claim frequency on this basis, and believes this provides more meaningful information than using claimant count which can change over the course of settling a claim.

In general, when a claim is reported, claims representatives establish a “case reserve” for the estimated amount of the ultimate payment based on the known information of the claim at that time. Claims managers review and monitor all property and casualty claims in excess of \$25,000. As new information becomes available or payments are made on a claim, the case reserve is adjusted to reflect the revised estimate of the ultimate amount to be paid out. Estimates and assumptions pertaining to individual claims are based on complex and subjective judgments and subject to change at any time as new information becomes available.

In addition to case reserves, IBNR reserves are established to provide for claims which have not been reported to the Company as of the reporting date as well as potential adverse development on known case reserves. IBNR reserve estimates are derived through a number of analytical techniques. Actuarial data is analyzed by line of business, coverage and accident year. Qualitative factors are also considered in determining IBNR reserves and include such factors as judicial decisions, general economic trends such as inflation, changes in policy forms, and underwriting changes. Reserves are reviewed quarterly and any indicated adjustments are made.

Because of the inherent uncertainties in establishing both case and IBNR reserves, ultimate loss experience may prove better or worse than indicated by the combined claim reserves. Adjustments to claim reserves are reflected in the period recognized and could increase or decrease earnings for the period.

The following is supplementary information about average historical claims duration as of December 31, 2020.

Reserve Line	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)									
	1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year	7th Year	8th Year	9th Year	10th Year
Medicare Supplement	83.0%	16.9%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Automobile Liability	29.1%	30.9%	17.3%	12.7%	5.8%	2.1%	0.4%	0.5%	0.0%	0.0%
Automobile Physical Damage	85.4%	14.2%	-0.6%	-0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
General Liability	17.8%	17.8%	22.5%	16.9%	8.4%	6.3%	2.8%	2.2%	1.7%	6.6%
Surety	41.2%	31.1%	10.5%	9.8%	-1.3%	1.8%	0.3%	0.2%	0.2%	0.1%

The reconciliation of the net incurred and paid claims development tables to the liability for losses, claims and loss adjustment expenses is as follows:

	December 31, 2020
Net outstanding liabilities	
Medicare Supplement	\$ 12,900
Automobile Liability	36,784
Automobile Physical Damage	1,964
General Liability	3,415
Surety	2,940
Other short-duration insurance lines	1,666
Liabilities for unpaid losses, claims and loss adjustment expenses, net of reinsurance	59,669
Reinsurance recoverable on unpaid losses:	
Medicare Supplement	8,975
Automobile Liability	6,260
Automobile Physical Damage	3
General Liability	2,362
Total reinsurance recoverable on unpaid losses	17,600
Unallocated claims adjustment expenses	1,878
Total gross liability for unpaid losses, claims and loss adjustment expenses	\$ 79,147

Note 6. Reinsurance

In accordance with general practice in the insurance industry, portions of the life, property and casualty insurance written by the Company are reinsured; however, the Company remains liable with respect to reinsurance ceded should any reinsurer be unable or unwilling to meet its obligations. Approximately 99.6% of the Company’s reinsurance recoverables were due from a single reinsurer as of December 31, 2020. Reinsurance recoverables of \$28,980 were due from General Re Corporation, rated “AA+” by Standard & Poor’s and “A++” (Superior) by A.M. Best. Allowances for uncollectible amounts are established against reinsurance recoverables, if appropriate.

The effects of reinsurance on premiums written, premiums earned and insurance benefits and losses incurred were as follows:

	2020	2019
Direct premiums written	\$ 239,687	\$ 237,973
Assumed premiums written	23,253	23,275
Ceded premiums written	(77,622)	(77,750)
Net premiums written	<u>\$ 185,318</u>	<u>\$ 183,498</u>
Direct premiums earned	\$ 238,209	\$ 237,361
Assumed premiums earned	23,144	22,345
Ceded premiums earned	(77,814)	(77,781)
Net premiums earned	<u>\$ 183,539</u>	<u>\$ 181,925</u>
Provision for benefits and losses incurred	\$ 175,825	\$ 206,390
Reinsurance loss recoveries	(55,949)	(67,165)
Insurance benefits and losses incurred	<u>\$ 119,876</u>	<u>\$ 139,225</u>

Components of reinsurance receivables at December 31, 2020 and 2019 were as follows:

	2020	2019
Recoverable on unpaid losses	\$ 17,600	\$ 18,339
Recoverable on unpaid benefits	9,832	10,772
Recoverable on paid losses	447	1,538
Ceded unearned premiums	963	1,155
Ceded advanced premiums	244	331
Total reinsurance receivables	<u>\$ 29,086</u>	<u>\$ 32,135</u>

Note 7. Income Taxes

Total income taxes were allocated as follows:

	2020	2019
Total tax expense (benefit) on income	\$ 3,334	\$ (21)
Tax expense on components of shareholders' equity:		
Net unrealized gains on investment securities	3,865	4,783
Total tax expense	<u>\$ 7,199</u>	<u>\$ 4,762</u>

A reconciliation of the differences between income taxes computed at the federal statutory income tax rate and the income tax benefit is as follows:

	2020	2019
Federal income tax provision	\$ 3,256	\$ (86)
Statutory rate	21%	21%
Dividends-received deduction	(12)	(23)
Meals & entertainment	20	55
Vested stock & club dues	36	37
Parking disallowance	16	17
Adjustment for prior years' estimates to actual	18	(21)
Income tax expense (benefit)	<u>\$ 3,334</u>	<u>\$ (21)</u>
Effective tax rate	<u>21.5%</u>	<u>5.2%</u>

The primary differences between the effective tax rate and the federal statutory income tax rate for 2020 resulted from permanent differences related to meals & entertainment and vested stock grants. Also contributing to differences between the effective tax rate and the federal statutory income tax rate were provision-to-filed return adjustments that are generally updated at the completion of the third quarter of each fiscal year and were \$18 in the year ended December 31, 2020.

The primary differences between the effective tax rate and the federal statutory income tax rate for 2019 resulted from permanent differences related to meals & entertainment and vested stock grants. Also contributing to differences between the effective tax rate and the federal statutory income tax rate was the dividends-received deduction (“DRD”). The current estimated DRD is adjusted as underlying factors change and can vary from estimates based on, but not limited to, actual distributions from investments as well as the amount of the Company’s taxable income.

Deferred tax assets and liabilities at December 31, 2020 and 2019 were comprised of the following:

	2020	2019
Deferred tax assets:		
Deferred acquisition costs	\$ 4,666	\$ 2,540
Insurance reserves	2,682	3,323
Impaired assets	822	822
Bad debts and other	326	319
Total deferred tax assets	8,496	7,004
Deferred tax liabilities:		
Deferred and uncollected premiums	\$ (409)	\$ (328)
Net unrealized investment gains	(9,235)	(6,090)
Other	(153)	(272)
Total deferred tax liabilities	(9,797)	(6,690)
Net deferred tax (liability) asset	\$ (1,301)	\$ 314

The components of income tax expense (benefit) were:

	2020	2019
Current – Federal	\$ 5,584	\$ 892
Deferred – Federal	(2,250)	(913)
Total	\$ 3,334	\$ (21)

The Company has formal tax-sharing agreements, and files a consolidated income tax return, with its subsidiaries. Tax years 2017, 2018 and 2019 are considered open tax years that remain subject to examination by the Internal Revenue Service.

Note 8. Junior Subordinated Debentures

The Company has two unconsolidated Connecticut statutory business trusts, which exist for the exclusive purposes of: (i) issuing trust preferred securities (“Trust Preferred Securities”) representing undivided beneficial interests in the assets of the trusts; (ii) investing the gross proceeds of the Trust Preferred Securities in junior subordinated deferrable interest debentures (“Junior Subordinated Debentures”) of Atlantic American; and (iii) engaging in those activities necessary or incidental thereto. At December 31, 2020, the effective interest rate was 4.28%.

The financial structure of each of Atlantic American Statutory Trust I and II, as of December 31, 2020 and 2019, was as follows:

	Atlantic American Statutory Trust I	Atlantic American Statutory Trust II
JUNIOR SUBORDINATED DEBENTURES ⁽¹⁾⁽²⁾		
Balance December 31, 2020	\$ 18,042	\$ 23,196
Less: Treasury debt ⁽³⁾	—	(7,500)
Net balance December 31, 2020	\$ 18,042	\$ 15,696
Net balance December 31, 2019	\$ 18,042	\$ 15,696
Coupon rate	LIBOR + 4.00%	LIBOR + 4.10%
Interest payable	Quarterly	Quarterly
Maturity date	December 4, 2032	May 15, 2033
Redeemable by issuer	Yes	Yes
TRUST PREFERRED SECURITIES		
Issuance date	December 4, 2002	May 15, 2003
Securities issued	17,500	22,500
Liquidation preference per security	\$ 1	\$ 1
Liquidation value	\$ 17,500	\$ 22,500
Coupon rate	LIBOR + 4.00%	LIBOR + 4.10%
Distribution payable	Quarterly	Quarterly
Distribution guaranteed by ⁽⁴⁾	Atlantic American Corporation	Atlantic American Corporation

- (1) For each of the respective debentures, the Company has the right at any time, and from time to time, to defer payments of interest on the Junior Subordinated Debentures for a period not exceeding 20 consecutive quarters up to the debentures’ respective maturity dates. During any such period, interest will continue to accrue and the Company may not declare or pay any cash dividends or distributions on, or purchase, the Company’s common stock nor make any principal, interest or premium payments on or repurchase any debt securities that rank equally with or junior to the Junior Subordinated Debentures. The Company has the right at any time to dissolve each of the trusts and cause the Junior Subordinated Debentures to be distributed to the holders of the Trust Preferred Securities.
- (2) The Junior Subordinated Debentures are unsecured and rank junior and subordinate in right of payment to all senior debt of the Parent and are

effectively subordinated to all existing and future liabilities of its subsidiaries.

(3) In 2014, the Company acquired \$7,500 of the Junior Subordinated Debentures.

(4) The Parent has guaranteed, on a subordinated basis, all of the obligations under the Trust Preferred Securities, including payment of the redemption price and any accumulated and unpaid distributions to the extent of available funds and upon dissolution, winding up or liquidation.

Note 9. Leases

The Company has two operating lease agreements, each for the use of office space in the ordinary course of business. The first lease renews annually on an automatic basis and based on original assumptions, management is reasonably certain to exercise the renewal option through 2026. The original term of the second lease was ten years and amended in January 2017 to provide for an additional seven years, with a termination date on September 30, 2026. The rate used in determining the present value of lease payments is based upon an estimate of the Company's incremental secured borrowing rate commensurate with the term of the underlying lease.

These leases are accounted for as operating leases, whereby lease expense is recognized on a straight-line basis over the term of the lease. Lease expense reported for each of the years ended December 31, 2020 and 2019 was \$1,014.

Additional information regarding the Company's real estate operating leases is as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Other information on operating leases:		
Cash payments included in the measurement of lease liabilities reported in operating cash flows	\$ 978	815
Right-of-use assets included in other assets on the consolidated balance sheet	4,832	5,476
Weighted average discount rate	6.8%	6.8%
Weighted average remaining lease term in years	5.9 years	6.9 years

The following table presents maturities and present value of the Company's lease liabilities:

	Lease Liability
2021	\$ 1,015
2022	1,031
2023	1,048
2024	1,065
2025	1,083
Thereafter	942
Total undiscounted lease payments	6,184
Less: present value adjustment	1,116
Operating lease liability included in accounts payable and accrued expenses on the consolidated balance sheet	\$ 5,068

As of December 31, 2020, the Company has no operating leases that have not yet commenced.

Note 10. Benefit Plans
Equity Incentive Plan

On May 1, 2012, the Company's shareholders approved the 2012 Equity Incentive Plan (the "2012 Plan"). The 2012 Plan authorizes the grant of up to 2,000,000 stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares, performance units and other awards for the purpose of providing the Company's non-employee directors, consultants, officers and other employees incentives and rewards for superior performance. In 2020, a total of 20,000 restricted shares, with an estimated fair value of \$38, were issued under the 2012 Plan and 35,000 restricted shares, with an estimated fair value of \$98, were forfeited under such plan. In 2019, a total of 355,000 restricted shares, with an estimated fair value of \$948, were issued under the 2012 Plan. The estimated fair value of the restricted shares issued under the 2012 Plan for 2020 and 2019 was based on the common stock price at date of grant. Stock grants are generally issued from treasury shares. Vesting of restricted shares generally occurs after a one to three year period. The Company accounts for forfeitures as they occur. There were no stock options granted or outstanding under the 2012 Plan in 2020 or 2019. Shares available for future grant at December 31, 2020 and 2019 were 935,200 and 920,200, respectively.

401(k) Plan

The Company initiated an employees' savings plan (the "Plan") qualified under Section 401(k) of the Internal Revenue Code in May 1995. The Plan covers substantially all of the Company's employees. Effective January 1, 2009, the Company modified the Plan such that the Plan would operate on a safe harbor basis. Under the Plan, employees may defer up to 50% of their compensation, not to exceed the annual deferral limit. The Company's total matching contribution for 2020 and 2019 was \$231 and \$230, respectively, and consisted of a contribution equal to 35% of up to the first 6% of each participant's contributions. In addition to the matching contribution, the Company also provided a 3% safe harbor non-elective contribution in 2020 and 2019 of \$520 and \$524, respectively. All contributions were made in cash. Participants are 100% vested in their own contributions and the vested percentage attributable to certain employer contributions is based on a five-year graded schedule.

Agent Stock Purchase Plan

The Company initiated a nonqualified stock purchase plan (the "Agent Stock Purchase Plan") in May 2012. The purpose of the Agent Stock Purchase Plan is to promote and advance the interests of the Company and its shareholders by providing independent agents who qualify as participants with an opportunity to purchase the common stock of the Company. Under the Agent Stock Purchase Plan, payment for shares of common stock of the Company is made by either deduction from an agent's commission payment or a direct cash payment. Stock purchases are made at the end of each calendar quarter at the then current market value.

Note 11. Preferred Stock

The Company had 55,000 shares of Series D preferred stock ("Series D Preferred Stock") outstanding at December 31, 2020 and 2019, respectively. All of the shares of Series D Preferred Stock are held by an affiliate of the Company's controlling shareholder. The outstanding shares of Series D Preferred Stock have a par value of \$1 per share and a redemption value of \$100 per share; accrue annual dividends at a rate of \$7.25 per share (payable in cash or shares of the Company's common stock at the option of the board of directors of the Company) and are cumulative. In certain circumstances, the shares of the Series D Preferred Stock may be convertible into an aggregate of approximately 1,378,000 shares of the Company's common stock, subject to certain adjustments and provided that such adjustments do not result in the Company issuing more than approximately 2,703,000 shares of common stock without obtaining prior shareholder approval; and are redeemable solely at the Company's option. The Series D Preferred Stock is not currently convertible. The Company had accrued, but unpaid, dividends, on the Series D Preferred Stock of \$18 at December 31, 2020 and 2019. During each of 2020 and 2019, the Company paid Series D Preferred Stock dividends of \$399.

Note 12. Earnings (Loss) Per Common Share

Basic earnings per share was computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share reflected the effect of potentially dilutive securities.

A reconciliation of the numerator and denominator of the income (loss) per common share calculations is as follows:

For the Year Ended December 31, 2020			
	Income	Weighted Average Shares Outstanding (In thousands)	Per Share Amount
Basic Earnings Per Common Share			
Net income before preferred stock dividends	\$ 12,169	20,441	
Less preferred stock dividends	(399)	—	
Net income applicable to common shareholders	11,770	20,441	0.58
Diluted Earnings Per Common Share:			
Effect of Series D preferred stock	399	1,378	
Net income applicable to common shareholders	\$ 12,169	21,819	\$ 0.56
For the Year Ended December 31, 2019			
	Loss	Weighted Average Shares Outstanding (In thousands)	Per Share Amount
Basic and Diluted Loss Per Common Share			
Net loss before preferred stock dividends	\$ (386)	20,258	
Less preferred stock dividends	(399)	—	
Net loss applicable to common shareholders	\$ (785)	20,258	\$ (.04)

The assumed conversion of the Company's Series D Preferred Stock was excluded from the earnings per common share calculation for 2019 since its impact would have been antidilutive.

Note 13. Statutory Reporting

The assets, liabilities and results of operations have been reported on the basis of GAAP, which varies in some respects from statutory accounting practices ("SAP") prescribed or permitted by insurance regulatory authorities. The principal differences between SAP and GAAP are that under SAP: (i) certain assets that are non-admitted assets are eliminated from the balance sheet; (ii) acquisition costs for policies are expensed as incurred, while they are deferred and amortized over the estimated life of the policies under GAAP; (iii) the provision that is made for deferred income taxes is different than under GAAP; (iv) the timing of establishing certain reserves is different than under GAAP; and (v) certain valuation allowances attributable to certain investments are different.

The Company meets the minimum capital requirements in the states in which it does business. The amount of reported statutory net income and surplus (shareholders' equity) for the Parent's insurance subsidiaries for the years ended December 31 was as follows:

	2020	2019
Bankers Fidelity, net income (loss)	\$ 7,712	\$ (9,509)
American Southern, net income	8,575	4,778
Statutory net income (loss)	\$ 16,287	\$ (4,731)
Bankers Fidelity, surplus	\$ 42,326	\$ 35,546
American Southern, surplus	50,194	45,827
Statutory surplus	\$ 92,520	\$ 81,373

Under the insurance code of the state in which each insurance subsidiary is domiciled, dividend payments to the Parent by its insurance subsidiaries are subject to certain limitations without the prior approval of the applicable state's Insurance Commissioner. The Parent received dividends of \$3,900 and \$4,800 in the years ended 2020 and 2019, respectively, from its subsidiaries. In 2020, dividend payments to the Parent by the insurance subsidiaries in excess of \$9,589 would require prior approval.

Note 14. Related Party Transactions

In the normal course of business the Company has engaged in transactions with entities affiliated with the controlling shareholder of the Company. These transactions include the leasing of office space as well as certain investing and financing activities. At December 31, 2020, two members of the Company's board of directors, including the Company's chairman, president and chief executive officer, were considered to be affiliates of the majority shareholder.

The Company leases approximately 49,586 square feet of office and covered garage space from one such controlled entity. During the years ended December 31, 2020 and 2019, the Company paid \$939 and \$908, respectively, under this lease.

Certain financing for the Company has also been provided by this entity in the form of an investment in the Series D Preferred Stock (See Note 11). During the years ended December 31, 2020 and 2019, the Company paid this entity \$399 in dividends on the Series D Preferred Stock.

Certain members of the Company's management and board of directors are shareholders and on the board of directors of Gray Television, Inc. ("Gray"). As of December 31, 2020 and 2019, the Company owned 880,272 shares of Gray Class A common stock and 106,000 shares of Gray common stock. The aggregate carrying value of these investments in Gray at December 31, 2020 and 2019 was \$16,606 and \$19,764, respectively.

During the years ended December 31, 2020 and 2019, Gray paid the Company approximately \$1,038 and \$1,022, respectively, in insurance premiums related to certain voluntary employee benefit plans.

During the year ended December 31, 2019, the Company transferred its remaining fractional interest in an aircraft arrangement to Gray for \$151.

Note 15. Segment Information

The Parent's primary insurance subsidiaries operate with relative autonomy and each company is evaluated based on its individual performance. American Southern operates in the property and casualty insurance market, while Bankers Fidelity operates in the life and health insurance market. Each segment derives revenue from the collection of premiums, as well as from investment income. Substantially all revenue other than that in the corporate and other segment is from external sources.

	For the Year Ended December 31, 2020				
	American Southern	Bankers Fidelity	Corporate & Other	Adjustments & Eliminations	Consolidated
Insurance premiums, net	\$ 62,372	\$ 121,167	\$ —	\$ —	\$ 183,539
Insurance benefits and losses incurred	39,339	80,537	—	—	119,876
Expenses deferred	(9,910)	(10,233)	—	—	(20,143)
Amortization and depreciation expense	9,772	10,007	594	—	20,373
Other expenses	19,542	34,403	14,526	(8,732)	59,739
Total expenses	58,743	114,714	15,120	(8,732)	179,845
Underwriting income	3,629	6,453	-	-	10,082
Net investment income	3,586	4,971	1,174	(1,987)	7,744
Other income	37	11	6,773	(6,745)	76
Operating income (loss)	7,252	11,435	(7,173)	—	11,514
Net realized gains	3,389	4,031	—	—	7,420
Unrealized losses on equity securities	(205)	(3,036)	(190)	—	(3,431)
Income (loss) before income taxes	\$ 10,436	\$ 12,430	\$ (7,363)	\$ —	\$ 15,503
Total revenues	\$ 69,179	\$ 127,144	\$ 7,757	\$ (8,732)	\$ 195,348
Intangibles	\$ 1,350	\$ 1,194	\$ —	\$ —	\$ 2,544
Total assets	\$ 158,808	\$ 236,197	\$ 183,178	\$ (172,996)	\$ 405,187

	For the Year Ended December 31, 2019				
	American Southern	Bankers Fidelity	Corporate & Other	Adjustments & Eliminations	Consolidated
Insurance premiums, net	\$ 58,680	\$ 123,245	\$ —	\$ —	\$ 181,925
Insurance benefits and losses incurred	39,541	99,684	—	—	139,225
Expenses deferred	(8,761)	(10,294)	—	—	(19,055)
Amortization and depreciation expense	9,024	8,709	551	—	18,284
Other expenses	16,869	37,158	15,939	(9,834)	60,132
Total expenses	56,673	135,257	16,490	(9,834)	198,586
Underwriting income (loss)	2,007	(12,012)	-	-	(10,005)
Net investment income	3,689	5,317	2,597	(2,624)	8,979
Other income	75	18	7,307	(7,210)	190
Operating income (loss)	5,771	(6,677)	(6,586)	—	(7,492)
Net realized gains (losses)	(386)	840	1,120	—	1,574
Unrealized gains on equity securities	344	2,191	2,976	—	5,511
Income (loss) before income taxes	\$ 5,729	\$ (3,646)	\$ (2,490)	\$ —	\$ (407)
Total revenues	\$ 62,402	\$ 131,611	\$ 14,000	\$ (9,834)	\$ 198,179
Intangibles	\$ 1,350	\$ 1,194	\$ —	\$ —	\$ 2,544
Total assets	\$ 141,524	\$ 224,122	\$ 154,687	\$ (142,707)	\$ 377,626

Note 16. Commitments and Contingencies

Litigation

From time to time, the Company is, and expects to continue to be, involved in various claims and lawsuits incidental to and in the ordinary course of its business. In the opinion of management, any such known claims are not expected to have a material effect on the financial condition or results of operations of the Company.

Note 17. Subsequent Events

On March 23, 2021, the Company's board of directors declared an annual cash dividend of \$0.02 per share of common stock that is payable to shareholders of record as of the close of business on April 13, 2021.

Since December 31, 2020, the COVID-19 pandemic continues to cause material disruption to financial markets and the economy. As a result of the pandemic, the Company could experience future losses in its investment portfolio as a result of the weakened and volatile markets. Additionally, the Company can experience increased risk of loss any time unforeseen infectious diseases impact large portions of a population. Specifically, the Company's life and health business could experience significant loss due to increased claims volume arising from COVID-19. The duration and impact of the COVID-19 pandemic is unknown at this time and it is not possible to reliably estimate the impact on the financial condition, operating results or liquidity of the Company and its operating subsidiaries in future periods.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based on that evaluation, management, including the Chief Executive Officer and Chief Financial Officer, concluded that disclosure controls and procedures were effective as of that date.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control over financial reporting system has been designed to provide reasonable assurance regarding the reliability and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Management recognizes that there are inherent limitations in the effectiveness of any internal control system. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Furthermore, the application of any evaluations of effectiveness on 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. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2020 based upon the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the updated 2013 *Internal Control – Integrated Framework*. Based on that evaluation, management believes that internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f) was effective as of December 31, 2020.

There were no changes in our internal control over financial reporting that occurred during the fourth quarter of 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to certain rules of the Securities and Exchange Commission that exempt smaller reporting companies, including the Company, from such requirement.

Item 9B. Other Information

None.

PART III

With the exception of certain information relating to the executive officers of the Company, which is provided in Part I hereof, the information relating to securities authorized for issuance under equity compensation plans and the information relating to the Company's Code of Business Conduct and Ethics, each of which is included below, all information required by Part III (Items 10, 11, 12, 13 and 14 of Form 10-K) is incorporated by reference to the sections entitled "Election of Directors," "Security Ownership of Certain Beneficial Owners and Management," "Delinquent Section 16(a) Reports" (if applicable), "Executive Compensation," "Certain Relationships and Related Transactions" and "Ratification of the Appointment of the Company's Independent Registered Public Accounting Firm" to be contained in the Company's definitive proxy statement in connection with the Company's Annual Meeting of Shareholders to be held on or around May 18, 2021, to be filed with the SEC within 120 days of the Company's fiscal year end.

Equity Compensation Plan Information

The following table sets forth, as of December 31, 2020, the number of securities issuable upon exercise of outstanding options, warrants and rights, the weighted average exercise price thereof and the number of securities remaining available for future issuance under the Company's equity compensation plans:

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders	—	\$ —	935,200
Equity compensation plans not approved by security holders ⁽¹⁾	—	—	—
Total	—	\$ —	935,200

(1) All the Company's equity compensation plans have been approved by the Company's shareholders.

The Company has adopted a Code of Business Conduct and Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or any persons performing similar functions, as well as its directors and other employees. A copy of this Code of Business Conduct and Ethics has been filed as an exhibit to this annual report on Form 10-K.

PART IV**Item 15. Exhibits and Financial Statement Schedules**

(a) List of documents filed as part of this report:

1. Financial Statements:

See Index to Financial Statements contained in Item 8 hereof.

2. Financial Statement Schedules:

Schedule II - Condensed financial information of the registrant

Schedule III - Supplementary insurance information of the registrant

Schedule IV - Reinsurance information for the registrant

Schedule VI - Supplemental information concerning property-casualty insurance operations of the registrant

Schedules other than those listed above are omitted as they are not required or are not applicable, or the required information is shown in the financial statements or notes thereto. Columns omitted from schedules filed have been omitted because the information is not applicable.

3. Exhibits *:

3.1	Restated Articles of Incorporation of the registrant, as amended [incorporated by reference to Exhibit 3.1 to the registrant's Form 10-K for the year ended December 31, 2008].
3.2	Restated Bylaws of the registrant, as amended [incorporated by reference to Exhibit 3.1 to the registrant's Form 8-K filed on March 4, 2016].
4.1	Description of the registrant's common stock registered pursuant to section 12 of the Securities Exchange Act of 1934 [incorporated by reference to Exhibit 4.1 to the registrant's Form 10-K filed on March 24, 2020].
10.01	Management Agreement, dated July 1, 1993, between the registrant and Atlantic American Life Insurance Company and Bankers Fidelity Life Insurance Company [incorporated by reference to Exhibit 10.41 to the registrant's Form 10-Q for the quarter ended September 30, 1993].
10.02	Tax Allocation Agreement, dated as of January 4, 2016, between the registrant and the registrant's subsidiaries [incorporated by reference to Exhibit 10.02 to the registrant's Form 10-K for the year ended December 31, 2017].
10.03**	Atlantic American Corporation 2012 Nonqualified Stock Purchase Plan [incorporated by reference to Exhibit 99.1 to the registrant's Form S-8 (File No. 333-183207) filed on August 10, 2012].
10.04**	Atlantic American Corporation 2012 Equity Incentive Plan [incorporated by reference to Exhibit 10.1 to the registrant's Form 10-Q for the quarter ended March 31, 2013].
10.05	Lease Agreement, dated as of November 1, 2007, between Georgia Casualty & Surety Company, Bankers Fidelity Life Insurance Company, Atlantic American Corporation and Delta Life Insurance Company [incorporated by reference to Exhibit 10.10 to the registrant's Form 10-K for the year ended December 31, 2007].
10.06	First Amendment to Lease Agreement, dated as of March 31, 2008, between Georgia Casualty & Surety Company, Bankers Fidelity Life Insurance Company, Atlantic American Corporation and Delta Life Insurance Company [incorporated by reference to Exhibit 10.2 to the registrant's Form 10-Q for the quarter ended March 31, 2008].
10.07**	Employment and Transition Agreement with Fixed Determination Date, dated as of June 14, 2017 by and between John G. Sample, Jr. and the registrant [incorporated by reference to Exhibit 10.07 to the registrant's Form 10-K for the year ended December 31, 2017].
14.1	Code of Business Conduct and Ethics [incorporated by reference to Exhibit 14.1 to the registrant's Form 10-K for the year ended December 31, 2003].
21.1	Subsidiaries of the registrant [incorporated by reference to Exhibit 21.1 to the registrant's Form 10-K for the year ended December 31, 2015].
23.1	Consent of Dixon Hughes Goodman LLP, Independent Registered Public Accounting Firm.
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

* The registrant agrees to furnish to the Commission upon request a copy of any instruments defining the rights of security holders of the registrant that may be omitted from filing in accordance with the Commission’s rules and regulations.

** Management contract, compensatory plan or arrangement required to be filed pursuant to Part IV, Item 15(c) of Form 10-K and Item 601 of Regulation S-K.

Item 16. Form 10-K Summary

None.

SIGNATURES

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

ATLANTIC AMERICAN CORPORATION
(Registrant)

By: /s/ J. Ross Franklin
J. Ross Franklin
Vice President and Chief Financial Officer

Date: March 23, 2021

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

Signature	Title	Date
<u>/s/ Hilton H. Howell, Jr.</u> HILTON H. HOWELL, JR.	President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 23, 2021
<u>/s/ J. Ross Franklin</u> J. ROSS FRANKLIN	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 23, 2021
<u>/s/ Robin R. Howell</u> ROBIN R. HOWELL	Director	March 23, 2021
<u>/s/ Mark E. Preisinger</u> MARK E. PREISINGER	Director	March 23, 2021
<u>/s/ Joseph M. Scheerer</u> JOSEPH M. SCHEERER	Director	March 23, 2021
<u>/s/ Scott G. Thompson</u> SCOTT G. THOMPSON	Director	March 23, 2021
<u>/s/ D. Keehln Wheeler</u> D. KEEHLN WHEELER	Director	March 23, 2021

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
ATLANTIC AMERICAN CORPORATION
(Parent Company Only)
BALANCE SHEETS
ASSETS

	December 31,	
	2020	2019
	(In thousands)	
Cash and cash equivalents	\$ 2,090	\$ 2,068
Investments	2,598	3,267
Investment in subsidiaries	172,996	142,707
Investments in unconsolidated trusts	1,238	1,238
Income taxes receivable from subsidiaries	1,683	2,304
Other assets	4,311	5,126
Total assets	<u>\$ 184,916</u>	<u>\$ 156,710</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Deferred tax liability, net	\$ 1,765	\$ 346
Other payables	4,353	4,232
Junior subordinated debentures	33,738	33,738
Total liabilities	<u>39,856</u>	<u>38,316</u>
Shareholders' equity	145,060	118,394
Total liabilities and shareholders' equity	<u>\$ 184,916</u>	<u>\$ 156,710</u>

See accompanying report of independent registered public accounting firm.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

ATLANTIC AMERICAN CORPORATION
(Parent Company Only)

STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2020	2019
	(In thousands)	
REVENUE		
Fee income from subsidiaries	\$ 6,745	\$ 7,210
Distributed earnings from subsidiaries	3,900	4,800
Unrealized gains (losses) on equity securities, net	(191)	2,976
Other	(784)	1,190
Total revenue	<u>9,670</u>	<u>16,176</u>
GENERAL AND ADMINISTRATIVE EXPENSES	11,521	11,731
INTEREST EXPENSE	<u>1,610</u>	<u>2,130</u>
	(3,461)	2,315
INCOME TAX BENEFIT ⁽¹⁾	<u>(3,623)</u>	<u>(2,035)</u>
	162	4,350
EQUITY IN UNDISTRIBUTED EARNINGS (LOSS) OF SUBSIDIARIES, NET	<u>12,007</u>	<u>(4,736)</u>
NET INCOME (LOSS)	<u>\$ 12,169</u>	<u>\$ (386)</u>

- (1) Under the terms of a tax-sharing agreement, income tax provisions for the subsidiary companies are computed on a separate company basis. Accordingly, the Company's income tax benefit results from the utilization of the Parent's separate return loss to reduce the consolidated taxable income of the Company.

See accompanying report of independent registered public accounting firm.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
ATLANTIC AMERICAN CORPORATION
(Parent Company Only)

STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2020	2019
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (loss)	\$ 12,169	\$ (386)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Realized investment gains, net	—	(1,120)
Unrealized losses (gains) on equity securities, net	191	(2,976)
Depreciation and amortization	594	552
Compensation expense related to share awards	437	353
Distributions received from equity method investees	—	51
Equity in undistributed (earnings) loss of subsidiaries, net	(12,007)	4,736
Decrease in intercompany taxes	622	551
Deferred income tax benefit	(2,446)	(913)
Increase in accounts payable and accrued expenses	121	2,360
Other, net	917	(2,314)
Net cash provided by operating activities	<u>598</u>	<u>894</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investments sold, called or matured	—	3,574
Investments purchased	—	(1,060)
Capital contribution to subsidiaries	—	(3,500)
Additions to property and equipment	(95)	(44)
Net cash used in investing activities	<u>(95)</u>	<u>(1,030)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends on Series D preferred stock	(399)	(399)
Payment of dividends on common stock	—	(403)
Proceeds from shares issued under stock plans	9	27
Treasury stock acquired — share repurchase authorization	—	(71)
Treasury stock acquired — net employee share-based compensation	(91)	(92)
Net cash used in financing activities	<u>(481)</u>	<u>(938)</u>
Net increase (decrease) in cash	22	(1,074)
Cash and cash equivalents at beginning of year	2,068	3,142
Cash and cash equivalents at end of year	<u>\$ 2,090</u>	<u>\$ 2,068</u>
Supplemental disclosure:		
Cash paid for interest	\$ 1,665	\$ 2,155
Cash paid for income taxes	\$ 3,883	\$ 1,662
Intercompany tax settlement from subsidiaries	\$ 1,798	\$ 3,335

See accompanying report of independent registered public accounting firm.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION

Segment	Deferred Acquisition Costs	Future Policy Benefits, Losses, Claims and Loss Reserves	Unearned Premiums	Other Policy Claims and Benefits Payable
	(In thousands)			
December 31, 2020:				
Bankers Fidelity	\$ 37,312	\$ 115,136	\$ 4,199	\$ 1,526
American Southern	2,299	54,883	22,932	—
	<u>\$ 39,611</u>	<u>\$ 170,019⁽¹⁾</u>	<u>\$ 27,131</u>	<u>\$ 1,526</u>
December 31, 2019:				
Bankers Fidelity	\$ 36,882	\$ 121,657	\$ 4,606	\$ 1,933
American Southern	1,979	52,281	21,429	—
	<u>\$ 38,861</u>	<u>\$ 173,938⁽²⁾</u>	<u>\$ 26,035</u>	<u>\$ 1,933</u>

(1) Includes future policy benefits of \$90,872 and losses and claims of \$79,147.

(2) Includes future policy benefits of \$92,490 and losses and claims of \$81,448.

See accompanying report of independent registered public accounting firm.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION

Segment	Premium Revenue	Net Investment Income	Benefits, Claims, Losses and Settlement Expenses	Amortization of Deferred Acquisition Costs	Other Operating Expenses	Casualty Premiums Written
(In thousands)						
December 31, 2020:						
Bankers Fidelity	\$ 121,167	\$ 4,971	\$ 80,537	\$ 9,803	\$ 24,374	\$ —
American Southern	62,372	3,586	39,339	9,590	9,814	64,366
Corporate & other	—	(813)	—	—	6,388	—
	<u>\$ 183,539</u>	<u>\$ 7,744</u>	<u>\$ 119,876</u>	<u>\$ 19,393</u>	<u>\$ 40,576</u>	<u>\$ 64,366</u>
December 31, 2019:						
Bankers Fidelity	\$ 123,245	\$ 5,317	\$ 99,684	\$ 8,459	\$ 27,114	\$ —
American Southern	58,680	3,689	39,541	8,829	8,303	60,328
Corporate & other	—	(27)	—	—	6,656	—
	<u>\$ 181,925</u>	<u>\$ 8,979</u>	<u>\$ 139,225</u>	<u>\$ 17,288</u>	<u>\$ 42,073</u>	<u>\$ 60,328</u>

See accompanying report of independent registered public accounting firm.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
REINSURANCE INFORMATION

	<u>Direct Amount</u>	<u>Ceded to Other Companies</u>	<u>Assumed From Other Companies</u>	<u>Net Amounts</u>	<u>Percentage of Amount Assumed to Net</u>
	(Dollars in thousands)				
Year ended December 31, 2020:					
Life insurance in force	\$ 294,392	\$ (11,032)	\$ —	\$ 283,360	
Premiums —					
Bankers Fidelity	\$ 193,082	\$ (71,924)	\$ 9	\$ 121,167	0.0%
American Southern	45,127	(5,890)	23,135	62,372	37.1%
Total premiums	<u>\$ 238,209</u>	<u>\$ (77,814)</u>	<u>\$ 23,144</u>	<u>\$ 183,539</u>	<u>12.6%</u>
Year ended December 31, 2019:					
Life insurance in force	\$ 257,731	\$ (11,449)	\$ —	\$ 246,282	
Premiums —					
Bankers Fidelity	\$ 195,481	\$ (72,261)	\$ 25	\$ 123,245	0.0%
American Southern	41,880	(5,520)	22,320	58,680	39.6%
Total premiums	<u>\$ 237,361</u>	<u>\$ (77,781)</u>	<u>\$ 22,345</u>	<u>\$ 181,925</u>	<u>12.8%</u>

See accompanying report of independent registered public accounting firm.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL INFORMATION CONCERNING
PROPERTY-CASUALTY INSURANCE OPERATIONS

Year Ended	Deferred Policy Acquisition Costs	Reserves	Unearned Premiums	Earned Premiums	Net Investment Income	Claims and Claim Adjustment Expenses Incurred Related To		Amortization of Deferred Acquisition Costs	Paid Claims and Claim Adjustment Expenses	Premiums Written
						Current Year	Prior Years			
						(In thousands)				
December 31, 2020	\$ 2,299	\$ 54,883	\$ 22,932	\$ 62,372	\$ 3,586	\$ 39,859	\$ (520)	\$ 9,590	\$ 37,645	\$ 64,366
December 31, 2019	\$ 1,979	\$ 52,281	\$ 21,429	\$ 58,680	\$ 3,689	\$ 40,361	\$ (820)	\$ 8,829	\$ 37,905	\$ 60,328

See accompanying report of independent registered public accounting firm.

CONSENT OF DIXON HUGHES GOODMAN LLP
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Atlantic American Corporation
Atlanta, Georgia

We consent to the incorporation by reference in the registration statements (Nos. 333-183207 and 333-183210) on Form S-8 of Atlantic American Corporation of our report dated March 23, 2021, with respect to the consolidated financial statements and schedules of Atlantic American Corporation as of and for the year ended December 31, 2020, which report appears in Atlantic American Corporation's Annual Report on Form 10-K.

/s/ Dixon Hughes Goodman LLP
Atlanta, Georgia
March 23, 2021

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Hilton H. Howell, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Atlantic American Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 23, 2021

/s/ Hilton H. Howell, Jr.

Hilton H. Howell, Jr.
President and Chief Executive Officer

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, J. Ross Franklin, certify that:

1. I have reviewed this annual report on Form 10-K of Atlantic American Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 23, 2021

/s/ J. Ross Franklin

J. Ross Franklin
Vice President and
Chief Financial Officer

Certifications Pursuant to §906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Annual Report on Form 10-K of Atlantic American Corporation (the “Company”) for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies, that, to such officer’s knowledge:

- (1) The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: March 23, 2021

/s/ Hilton H. Howell, Jr.

Hilton H. Howell, Jr.

President and Chief Executive Officer

Date: March 23, 2021

/s/ J. Ross Franklin

J. Ross Franklin

Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

FORM 10-K

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

For the fiscal year ended December 31, 2021

or

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

Commission file number 0-3722

ATLANTIC AMERICAN CORPORATION

(Exact name of registrant as specified in its charter)

Georgia
(State or other jurisdiction of incorporation or organization)
4370 Peachtree Road, N.E.,
Atlanta, Georgia
(Address of principal executive offices)

58-1027114
(I.R.S. Employer Identification No.)

30319
(Zip Code)

(Registrant's telephone number, including area code) (404) 266-5500
Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$1.00 per share	AAME	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 definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2021, the last business day of the registrant's most recently completed second fiscal quarter, was \$17,207,139. For purposes hereof, beneficial ownership is determined under rules adopted pursuant to Section 13 of the Securities Exchange Act of 1934, and the foregoing excludes value ascribed to common stock that may be deemed beneficially owned by the directors and executive officers, and 10% or greater stockholders, of the registrant, some of whom may not be deemed to be affiliates upon judicial determination. On March 16, 2022 there were 20,378,576 shares of the registrant's common stock, par value \$1.00 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2022 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year end, have been incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

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Forward-Looking Statements

Certain of the statements contained or incorporated by reference herein are forward-looking statements within the meaning of the federal securities laws. Forward-looking statements are all statements other than those of historical fact. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Exchange Act of 1934, and Section 21E of the Securities Act of 1933, and include estimates and assumptions related to, among other things, general economic, competitive, operational and legislative developments, expectations and trends. Forward-looking statements are inherently subject to risks and uncertainties which are, in many instances, beyond the Company's control and have been made based upon management's current expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with management's expectations or that the effect of future developments on the Company will be those anticipated by management. Actual results could differ materially from those expressed by forward-looking statements, depending on the occurrence or outcome of various factors. These factors include, among others: significant changes in general economic conditions; unexpected developments in the health care or insurance industries affecting providers or individuals, including the cost or availability of services, or the tax consequences related thereto; disruption to the financial markets; unanticipated increases in the rate, number and amounts of claims outstanding; the level of performance of reinsurance companies under reinsurance contracts and the availability, pricing and adequacy of reinsurance to protect the Company against losses; changes in the stock markets, interest rates or other financial markets, including the potential effect on the Company's statutory capital levels; the uncertain effect on the Company of regulatory and market-driven changes in practices relating to the payment of incentive compensation to brokers, agents and other producers; the impact of COVID-19 or other public health emergencies; the incidence and severity of catastrophes, both natural and man-made; the possible occurrence of terrorist attacks; stronger than anticipated competitive activity; unfavorable judicial or legislative developments; the potential effect of regulatory developments, including those which could increase the Company's business costs and required capital levels; the Company's ability to distribute its products through distribution channels, both current and future; the uncertain effect of emerging claim and coverage issues; the effect of assessments and other surcharges for guaranty funds and other mandatory pooling arrangements; and risks related to cybersecurity matters, such as breaches of our computer network or the loss of unauthorized access to the data we maintain. As a result, undue reliance should not be placed upon forward-looking statements. The Company undertakes no obligation to publicly update any forward-looking statements as a result of subsequent developments, changes in underlying assumptions or facts or otherwise, except as may be required by law.

PART I

Item 1. Business

The Company

Atlantic American Corporation, a Georgia corporation incorporated in 1968 (the "Parent" or "Company"), is a holding company that operates through its subsidiaries in well-defined specialty markets within the life and health and property and casualty insurance industries. The Parent's principal operating subsidiaries are American Southern Insurance Company and American Safety Insurance Company (together known as "American Southern") within the property and casualty insurance industry and Bankers Fidelity Life Insurance Company and Bankers Fidelity Assurance Company (together known as "Bankers Fidelity") within the life and health insurance industry. Each of American Southern and Bankers Fidelity is managed separately based upon the type of products it offers, and is evaluated on its individual performance. The Company's strategy is to focus on well-defined geographic, demographic and/or product niches within the insurance marketplace. Each of American Southern and Bankers Fidelity operates with relative autonomy, which structure is designed to allow for quick reaction to market opportunities.

The Parent has no significant business operations of its own and relies on fees, dividends and other distributions from its operating subsidiaries as the principal source of cash flow to meet its obligations. Additional information regarding the cash flow and liquidity needs of the Parent can be found in the Liquidity and Capital Resources section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Property and Casualty Operations

American Southern comprises the Company's property and casualty operations and its primary product lines are as follows:

Business Automobile Insurance policies provide bodily injury and/or property damage liability coverage, uninsured motorist coverage and physical damage coverage for commercial accounts.

General Liability Insurance policies cover bodily injury and/or property damage liability for both premises and completed operations exposures for general classes of business.

Surety Bonds are contracts under which one party, the insurance company issuing the surety bond, guarantees to a third party that the primary party will fulfill an obligation in accordance with a contractual agreement. This obligation may involve meeting a contractual commitment, paying a debt or performing certain duties.

American Southern provides tailored business automobile insurance coverage, on a multi-year contract basis, to state governments, local municipalities and other large motor pools and fleets (“block accounts”) that can be specifically rated and underwritten. The size of the block accounts insured by American Southern are generally such that individual class experience can be determined, which allows for customized policy terms and rates. American Southern is licensed to do business in 32 states and the District of Columbia. While the majority of American Southern’s premiums are derived from its automobile lines of business, American Southern also offers inland marine and general liability coverages. Additionally, American Southern directly provides surety bond coverage for subdivision construction, school bus contracts, as well as performance and payment bonds.

The following table summarizes, for the periods indicated, the allocation of American Southern’s net earned premiums from each of its principal product lines:

	Year Ended December 31,	
	2021	2020
	(In thousands)	
Automobile liability	\$ 30,453	\$ 30,312
Automobile physical damage	22,917	18,730
General liability	5,637	3,891
Surety	5,620	5,857
Other lines	3,355	3,582
Total	<u>\$ 67,982</u>	<u>\$ 62,372</u>

Life and Health Operations

Bankers Fidelity comprises the life and health operations of the Company and offers a variety of life and supplemental health products. Products offered by Bankers Fidelity include ordinary life insurance, Medicare supplement and other accident and health insurance products.

Life Insurance products include non-participating, individual and group whole life insurance policies with a variety of riders and options. Policy premiums are dependent upon a number of factors, including issue age, level of coverage and selected riders or options.

Medicare Supplement Insurance includes 8 of the 10 standardized Medicare supplement policies created under the Medicare Improvements for Patients and Providers Act of 2008 (“MIPPA”), which are designed to provide insurance coverage for certain expenses not covered by the Medicare program, including copayments and deductibles.

Other Accident and Health Insurance coverages include several individual and group policies providing for the payment of standard benefits in connection with the treatment of diagnosed cancer and other critical illnesses, as well as a number of other policies providing short-term nursing facility care, accident expense, hospital indemnity and disability coverages.

Health insurance products, primarily Medicare supplement insurance, accounted for 91% of Bankers Fidelity’s net earned premiums in 2021 while life insurance, including both whole and term life insurance policies, accounted for the balance. In terms of the number of policies written in 2021, 67% were health insurance policies and 33% were life insurance policies.

The following table summarizes, for the periods indicated, the allocation of Bankers Fidelity’s net earned premiums from each of its principal product lines:

	Year Ended December 31,	
	2021	2020
	(In thousands)	
Life insurance	\$ 10,557	\$ 9,270
Medicare supplement	95,314	102,680
Other accident and health	10,363	9,217
Total health insurance	<u>105,677</u>	<u>111,897</u>
Total	<u>\$ 116,234</u>	<u>\$ 121,167</u>

Marketing

Property and Casualty Operations

A portion of American Southern's business is marketed through a small number of specialized, experienced independent agents. American Southern's agent selection process is actively managed by internal marketing personnel with oversight from management. Senior management carefully reviews all new programs prior to acceptance. Most of American Southern's agents are paid an up-front commission with the potential for additional commissions by participating in a profit sharing arrangement that is directly linked to the profitability of the underlying business. American Southern also solicits business from governmental entities. As an experienced writer of insurance policies for certain governmental programs, the company actively pursues this market on a direct basis. Much of this business is priced by means of competitive bid situations. As a result, there can be no assurance with respect to the ultimate profitability or ability of the Company to obtain or retain such business at the time of a specific contract renewal.

Life and Health Operations

Bankers Fidelity acquires its clientele through three distribution channels spread across 46 different states and two business divisions, all of which utilize commissioned, independent agents. The three distribution channels include traditional independent agents, brokers typically interested in a specific product of Bankers Fidelity and brokers who focus on sales within the group/employer benefits division, Atlantic American Employee Benefits, all of which are responsible for their own marketing and sales activities. Contracting as independent agents enables Bankers Fidelity to effectively expand or contract its sales force without incurring significant expense.

Bankers Fidelity had approximately 4,380 licensed agents contracted in both the individual and group divisions as of December 31, 2021. During 2021, approximately 660 of these licensed agents wrote policies on behalf of Bankers Fidelity.

Bankers Fidelity's marketing and distribution strategy revolves around five pillars: Diversification, Differentiation, Quality, Retention and Profitability.

Diversification. Through unique product offerings such as the Vantage Recovery®, short-term care product and a group whole life product featuring a chronic illness rider, the Company is able to offer its distributors an array of products to sell that stand out from the competition. As the Company continues to expand its geographical footprint with agents and products, one of its main objectives is to have a healthy mix of all of its product lines nationwide.

Differentiation. Bankers Fidelity prides itself on the quality of customer service it offers to policyholders and agents. A dedicated agent support team is available to the field to support them on administration, underwriting, sales training, product questions and a plethora of other services which differentiates the Company from other carriers. Additionally, a customer loyalty team is available solely to serve insureds for any of their insurance needs. Bankers Fidelity prides itself on being agile, which we believe differentiates us from larger carriers and helps the Company to quickly execute senior management's initiatives.

Quality. Bankers Fidelity is focused on being a niche carrier that delivers superior service, quality products and innovative solutions. Sophisticated technology and reporting allows the home office teams to work with the sales force to deliver a tailored experience and phenomenal customer service.

Retention. Through seasonal campaigns and customer outreach, the Company is focused on client retention and servicing its policyholders through all stages in their lives. By providing its agents with an innovative product portfolio, the Company further promotes client retention by empowering its agents to continually meet the needs of our policyholders.

Profitability. In an effort to be sustainable in the marketplace as a long-term partner, senior management is focused on diversification, differentiation, quality and retention to achieve profitability.

Underwriting

Property and Casualty Operations

American Southern specializes in underwriting various risks that are sufficiently large enough to establish separate class experience, relying upon the underwriting expertise of its agents.

During the course of the policy life, extensive use is made of risk management representatives to assist commercial underwriters in identifying and correcting potential loss exposures and to physically inspect new accounts. The underwriting results from each insured are reviewed on an individual basis periodically. If results are below expectations, management takes corrective action, which may include adjusting rates, revising underwriting standards, adjusting commissions paid to agents, and/or altering or declining to renew accounts at expiration.

Life and Health Operations

Bankers Fidelity issues a variety of products that span from the group markets to the individual markets for both life and health insurance. Products offered by Bankers Fidelity include life insurance, typically with small face amounts, Medicare supplement and other accident and health insurance. Bankers Fidelity also provides an array of group products such as accident, cancer, critical illness, hospital indemnity and life insurance that is offered to employers who are looking to provide coverage for their employees and have the related premiums deducted through payroll deductions.

The majority of the products are underwritten on a non-medical basis using a simplified issue approach by which an application containing a variety of health related questions is submitted. Applications for insurance are reviewed to determine the face amount, age, medical history and any other necessary information. Bankers Fidelity utilizes information obtained directly from the insured, the medical claims data, prescription utilization reports as well as telephone interviews to determine whether an applicant meets the Company's underwriting criteria. Bankers Fidelity may also utilize medical records and investigative services to supplement and substantiate information, as necessary.

Policyholder and Claims Services

The Company believes that prompt, efficient policyholder and claims services are essential to its continued success in marketing its insurance products (see "Competition"). Additionally, the Company believes that its insureds are particularly sensitive to claims processing time and to the accessibility of qualified staff to answer inquiries. Accordingly, the Company's policyholder and claims services seek to offer expeditious disposition of service requests by providing toll-free access for all customers, 24-hour claim reporting services, and direct computer links with some of its largest accounts. The Company also utilizes an automatic call distribution system designed to ensure that inbound calls to customer service support groups are processed efficiently. Operational data generated from this system allows management to further refine ongoing client service programs and service representative training modules.

Property and Casualty Operations

American Southern controls its claims costs by utilizing an in-house staff of claims supervisors to investigate, verify, negotiate and settle claims. Upon notification of an occurrence purportedly giving rise to a claim, a claim file is established. The claims department then conducts a preliminary investigation, determines whether an insurable event has occurred and, if so, updates the file for the findings and any required reserve adjustments. Independent adjusters and appraisers are frequently utilized to service claims which require on-site inspections.

Life and Health Operations

The majority of life and health claims are filed electronically while insureds also have the ability to download claims forms and file directly. Insureds may also obtain claim forms by calling the customer service group or through Bankers Fidelity's website. All of these claims are entered into the system immediately upon receipt and put into a pending status until the claim can be fully processed. To shorten claim processing time, a letter detailing all supporting documents that are required to complete a claim for a particular policy is sent to the customer along with the correct claim form. Properly documented claims are generally paid within five business days of receipt. With regard to Medicare supplement policies, the claim is either directly billed to Bankers Fidelity by the provider or sent electronically through a Medicare clearing house.

Reserves

Reserves are set by line of business within each of the subsidiaries. At December 31, 2021, approximately 67% of the losses and claims reserves related to property and casualty and approximately 33% related to life and health. The Company's property and casualty operations incur losses which may take extended periods of time to evaluate and settle. Issues with respect to legal liability, actual loss quantification, legal discovery and ultimate subrogation, among other factors, may influence the initial and subsequent estimates of loss. In the property and casualty operations, the Company's general practice is to reserve at the higher end of the determined reasonable range of loss if no other value within the range is determined to be more probable. The Company's life and health operations generally incur losses which are more readily quantified. Medical claims received are recorded in case reserves based on contractual terms using the submitted billings as a basis for determination. Life claims are recorded based on contract value at the time of notification to the Company; offset by policy reserves related to such contracts previously established. Individual case reserves are established by a claims processor on each individual claim and are periodically reviewed and adjusted as new information becomes known during the course of handling a claim. Regular internal periodic reviews are also performed by management to ensure that loss reserves are established and revised timely relative to the receipt of new or additional information. Lines of business for which loss data (e.g. paid losses and case reserves) emerge over a long period of time are referred to as long-tail lines of business. Lines of business for which loss data emerge more quickly are referred to as short-tail lines of business. The Company's long-tail line of business generally consists of its general liability coverage while the short-tail lines of business generally consist of property and automobile coverages.

The Company's actuaries regularly review reserves for both current and prior accident years using the most current claims data. These reviews incorporate a variety of actuarial methods (discussed in Critical Accounting Policies) and judgments and involve a disciplined analysis. For most lines of business, certain actuarial methods and specific assumptions are deemed more appropriate based on the current circumstances affecting that line of business. These selections incorporate input from claims personnel and operating management on reported loss cost trends and other factors that could affect the reserve estimates.

The Company establishes reserves for claims based upon: (a) management's estimate of ultimate liability and claims adjusters' evaluations of unpaid claims reported prior to the close of the accounting period, (b) estimates of IBNR claims based on past experience, and (c) estimates of LAE. The estimated liability is periodically reviewed and updated, and changes to the estimated liability are recorded in the statement of operations in the period in which such changes become known.

For long-tail lines of business, the emergence of paid losses and case reserves is less credible in the early periods, and accordingly may not be indicative of ultimate losses. For these lines, methods which incorporate a development pattern assumption are given less weight in calculating incurred but not reported ("IBNR") reserves for the early periods of loss emergence because such a low percentage of ultimate losses are reported in that time frame. Accordingly, for any given accident year, the rate at which losses on long-tail lines of business emerge in the early periods is generally not as reliable an indication of ultimate losses as it would be for shorter-tail lines of business. The estimation of reserves for these lines of business in the early periods of loss emergence is therefore largely influenced by statistical analyses and application of prior accident years' loss ratios, after considering changes to earned pricing, loss costs, mix of business, ceded reinsurance and other factors that are expected to affect the estimated ultimate losses. For later periods of loss emergence, methods which incorporate a development pattern assumption are given more weight in estimating ultimate losses. For short-tail lines of business, the emergence of paid loss and case reserves is more credible in the early periods and is more likely to be indicative of ultimate losses. The method used to set reserves for these lines of business is based upon utilization of a historical development pattern for reported losses. IBNR reserves for the current year are set as the difference between the estimated fully developed ultimate losses for each year, less the established, related case reserves and cumulative related payments. IBNR reserves for prior accident years are similarly determined, again relying on an indicated, historical development pattern for reported losses.

Based on the results of regular reserve estimate reviews, the Company determines the appropriate reserve adjustment, if any, to record in each period. If necessary, recorded reserve estimates are changed after consideration of numerous factors, including, but not limited to, the magnitude of the difference between the actuarial indication and the recorded reserves, improvement or deterioration of actuarial indication in the period, the maturity of the accident year, trends observed over the recent past and the level of volatility within a particular line of business. In general, changes are made more quickly to recognize changes in estimates to ultimate losses in mature accident years and less volatile lines of business.

The Company's policy is to record reserves for losses and claims in amounts which approximate actuarial best estimates of ultimate values. Actuarial best estimates do not necessarily represent the midpoint value determined using the various actuarial methods; however, such estimates will fall between the estimated low and high end reserve values. The range of estimates developed in connection with the December 31, 2021 actuarial review indicated that reserves could be as much as 9.8% lower or as much as 3.5% higher. In the opinion of management, recorded reserves represent the best estimate of outstanding losses, although significant judgments are made in the derivation of reserve estimates and revisions to such estimates are expected to be made in future periods. Any such revisions could be material, and may materially adversely affect the Company's financial condition and results of operations in any future period.

Property and Casualty Operations

American Southern maintains loss reserves representing estimates of amounts necessary for payment of losses and loss adjustment expense ("LAE"), which are not discounted. IBNR reserves are also maintained for future development. These loss reserves are estimates, based on known facts and circumstances at a given date, of amounts the Company expects to pay on incurred claims. All balances are reviewed periodically by the Company's independent consulting actuary. Reserves for LAE are intended to cover the ultimate costs of settling claims, including investigation and defense of any lawsuits resulting from such claims. Loss reserves for reported claims are based on a case-by-case evaluation of the type of claim involved, the circumstances surrounding the claim, and the policy provisions relating to the type of loss along with anticipated future development. The LAE for claims reported and claims not reported is based on historical statistical data and anticipated future development. Inflation and other factors which may affect claim payments are implicitly reflected in the reserving process through analysis and consideration of cost trends and reviews of historical reserve results.

Estimating case reserves and ultimate losses involves various considerations which differ according to the line of business. In addition, changes in legislative and regulatory environments may impact loss estimates. General liability claims may have a long pattern of loss emergence. Given the broad nature of potential general liability coverages, investigative time periods may be extended and questions of coverage may exist. Such uncertainties create greater imprecision in estimating required levels of loss reserves. The property and automobile lines of business generally have less variable reserve estimates than other lines. This is largely due to the coverages having relatively shorter periods of loss emergence. Estimates, however, can still vary due to a number of factors, including interpretations of frequency and severity trends. Severity trends can be impacted by changes in internal claim handling and reserving practices in addition to changes in the external environment. These changes in claim practices increase the uncertainty in the interpretation of case reserve data, which increases the uncertainty in recorded reserve levels.

Life and Health Operations

Bankers Fidelity establishes liabilities for future policy benefits to meet projected obligations under policies that are in force as of the statement date. These reserves are calculated to satisfy policy and contract obligations as they are projected to come due. Reserves for insurance policies are calculated using assumptions for interest rates, mortality rates, morbidity rates and lapse rates. These assumptions vary by the product type, the year the policy was issued, and other demographic information about the policyholder. Variations in assumptions may be made from one issue year to another to reflect actual experience. Assumptions that deviate significantly from actual future experience, or actual results that differ significantly from our estimates, could have a materially adverse effect on our liquidity, results of operations, or financial condition.

See Note 5 of Notes to Consolidated Financial Statements for more information on insurance reserves and policyholder funds.

Reinsurance

The Company's insurance subsidiaries from time to time purchase reinsurance from unaffiliated insurers and reinsurers to reduce their potential liability on individual risks and to protect against catastrophic losses. In a reinsurance transaction, an insurance company transfers, or "cedes," a portion or all of its exposure on insurance policies to a reinsurer. The reinsurer assumes the exposure in return for a portion of the premiums. The ceding of insurance does not legally discharge the insurer from primary liability for the full amount of the policies written by it, and the ceding company will incur a loss if the reinsurer fails to meet its obligations under the reinsurance agreement.

Property and Casualty Operations

American Southern's basic reinsurance treaties generally cover all claims in excess of specified per occurrence limitations. Limits per occurrence within the reinsurance treaties are as follows: Inland marine and commercial automobile physical damage - \$250,000 excess of \$100,000 retention; and automobile liability and general liability - excess coverage of \$2.0 million less retentions that may vary from \$100,000 to \$500,000 depending on the account. American Southern maintains a property catastrophe treaty with a \$5.7 million limit excess of \$300,000 retention. American Southern also issues individual surety bonds with face amounts generally up to \$1.5 million, and limited to \$5.0 million in aggregate per account, that are not reinsured.

Life and Health Operations

Bankers Fidelity has entered into reinsurance contracts ceding the excess of its life retention. Maximum retention by Bankers Fidelity on any one individual in the case of life insurance policies is \$100,000. At December 31, 2021, \$9.5 million of the \$416.5 million of life insurance in force at Bankers Fidelity was reinsured under a mix of coinsurance and yearly renewable term agreements. Certain prior year reinsurance agreements also remain in force although they no longer provide reinsurance for new business.

Bankers Fidelity has also entered into a reinsurance contract ceding excess new Medicare supplement business to General Re Life Corporation. Ceding thresholds are set annually. During 2021, the liability of the reinsurer was 50% of all new Medicare supplement business issued by the Company on amounts up to a maximum retention of \$15.0 million of annualized premium. Accordingly, \$2.0 million of the Company's \$4.0 million of new annualized Medicare supplement premium was ceded.

Competition

Competition for insurance products is based on many factors including premiums charged, terms and conditions of coverage, customer service, financial ratings assigned by independent rating agencies, claims handling, consumer recognition and reputation, perceived financial strength and the experience of the organization in the line of business being written.

Property and Casualty Operations

The businesses in which American Southern engages are highly competitive. The principal areas of competition are pricing and service. Many competing property and casualty companies have been in business longer than American Southern, offer more diversified lines of insurance and have substantially greater financial resources. Management believes, however, that the policies it sells are competitive with those providing similar benefits offered by other insurers doing business in the states in which American Southern operates. American Southern strives to develop strong relationships with its agents and, consequently, believes it is well positioned for new opportunities and programs with those agents.

Life and Health Operations

The life and health insurance business remains highly competitive and includes a large number of insurance companies, many of which are new entrants to the business of providing Medicare supplement and other accident and health insurance products. Bankers Fidelity has established itself as a trusted carrier of choice for its customers providing quality and sustainability for over 65 years.

In order to compete, Bankers Fidelity actively seeks opportunities in niche markets, developing long-term relationships with a select number of independent marketing organizations. Additionally, Bankers Fidelity actively promotes Atlantic American Employee Benefits, the group benefits division, as well as selective association partnerships. It competes with other insurers to attract and retain the allegiance of its independent agents through commission and sales incentive arrangements, accessibility and marketing assistance, lead programs, reputation and market expertise. Bankers Fidelity successfully competes in its chosen markets by establishing relationships with independent agents and providing proprietary marketing initiatives as well as providing outstanding service to policyholders.

Ratings

Ratings are important measures within the insurance industry, and higher ratings are expected to have a favorable impact on the ability of a company to compete in the marketplace. Ratings of insurance companies are not designed for investors and do not constitute recommendations to buy, sell, or hold any security.

Each year A.M. Best Company, Inc. ("A.M. Best") publishes Best's Insurance Reports, which includes assessments and ratings of all insurance companies. A.M. Best's financial strength ratings, which may be revised or revoked at any time, follow a graduated scale of rating categories and notches ranging from A++ (Superior) to F (in liquidation). A.M. Best's ratings are based on a detailed analysis of the statutory financial condition and operations of an insurance company compared to the industry in general.

American Southern. American Southern Insurance Company and its wholly-owned subsidiary, American Safety Insurance Company, are each, as of the date of this report, rated "A" (Excellent) by A.M. Best.

Bankers Fidelity. Bankers Fidelity Life Insurance Company and its wholly-owned subsidiary, Bankers Fidelity Assurance Company, are each, as of the date of this report, rated "A-" (Excellent) by A.M. Best.

Regulation

Like all domestic insurance companies, the Company's insurance subsidiaries are subject to regulation and supervision in the jurisdictions in which they do business. Statutes typically delegate regulatory, supervisory, and administrative powers to state insurance commissioners. The method of such regulation varies, but regulation relates generally to the licensing of insurers and their agents, the nature of and limitations on investments, approval of policy forms, reserve requirements, the standards of solvency to be met and maintained, deposits of securities for the benefit of policyholders, and periodic examinations of insurers and trade practices, among other things. The Company's products generally are subject to rate regulation by state insurance commissioners, which require that certain minimum loss ratios be maintained. Certain states also have insurance holding company laws which require registration and periodic reporting by insurance companies controlled by other corporations licensed to transact business within their respective jurisdictions. The Company's insurance subsidiaries are subject to such legislation and are registered as controlled insurers in those jurisdictions in which such registration is required. Such laws vary from state to state, but typically require periodic disclosure concerning the corporation which controls the registered insurers and all subsidiaries of such corporations, as well as prior notice to, or approval by, the state insurance commissioners of intercorporate transfers of assets (including payments of dividends by the insurance subsidiaries in excess of specified amounts) within the holding company system. The Company believes it is in compliance with all such requirements.

Most states require that rate schedules and other information be filed with the state's insurance regulatory authority, either directly or through a ratings organization with which the insurer is affiliated. The regulatory authority may disapprove a rate filing if it determines that the rates are inadequate, excessive, or discriminatory. The Company has historically experienced no significant regulatory resistance to its applications for rate adjustments; however, the Company cannot provide any assurance that it will not receive any objections to any applications in the future.

A state may require that acceptable securities be deposited for the protection either of policyholders located in those states or of all policyholders. As of December 31, 2021, the Company was in compliance with all such requirements, and securities with an amortized cost of \$11.2 million were on deposit either directly with various state authorities or with third parties pursuant to various custodial agreements on behalf of the Company's insurance subsidiaries.

Virtually all of the states in which the Company's insurance subsidiaries are licensed to transact business require participation in their respective guaranty funds designed to cover claims against insolvent insurers. Insurers authorized to transact business in these jurisdictions are generally subject to assessments of up to 4% of annual direct premiums written in that jurisdiction to pay such claims, if any. The likelihood and amount of any future assessments cannot be estimated until an insolvency has occurred.

NAIC Ratios

The National Association of Insurance Commissioners (the “NAIC”) was established to, among other things, provide guidelines to assess the financial strength of insurance companies for state regulatory purposes. The NAIC conducts annual reviews of the financial data of insurance companies primarily through the application of financial ratios prepared on a statutory basis. Annual statements are required to be submitted to state insurance departments to assist them in monitoring insurance companies in their state and to allow such states to determine a desirable range for each such ratio with which companies should comply.

The NAIC developed the Insurance Regulatory Information System (“IRIS”) to help state regulators identify companies that may require regulatory attention. Financial examiners review annual financial statements and the results of key financial ratios based on year-end data with the goal of identifying insurers that appear to require immediate regulatory attention. Each ratio has an established “usual range” of results. A ratio result falling outside the usual range, however, is not necessarily considered adverse; rather, unusual values are used as part of the regulatory early monitoring system. Furthermore, in some years, it may not be unusual for financially sound companies to have several ratios with results outside the usual ranges. Generally, an insurance company may become subject to regulatory scrutiny or, depending on the company’s financial condition, regulatory action if certain of its key IRIS ratios fall outside the usual ranges and the insurer’s financial condition is trending downward.

For the year ended December 31, 2021, Bankers Fidelity Life Insurance Company had two ratios outside the usual range as a result of net loss from operations primarily driven by the Medicare supplement line of business, as well as a decrease in reserves on individual life policies. Bankers Fidelity Assurance Company had four ratios outside the usual range primarily as a result of net loss for the year, an increase in nonadmitted deferred tax assets to admitted assets and certain surplus ratios. American Southern Insurance Company and American Safety Insurance Company had no IRIS ratios outside the usual ranges. Management does not anticipate regulatory action as a result of the 2021 IRIS ratio results for the insurance subsidiaries.

Risk-Based Capital

Risk-based capital (“RBC”) is a metric used by ratings agencies and regulators as an early warning tool to identify weakly capitalized companies for the purpose of initiating further regulatory action. The RBC calculation determines the amount of adjusted capital needed by a company to avoid regulatory action. “Authorized Control Level Risk-Based Capital” (“ACL”) is calculated, and if a company’s adjusted capital is 200% or lower than ACL, it is subject to regulatory action. At December 31, 2021, the Company’s insurance subsidiaries’ RBC levels exceeded the required regulatory levels.

Information Technology and Cybersecurity

The Company’s operations rely on the secure processing, storage, and transmission of confidential and personal identifiable information within various technology platforms. Cybersecurity is a high priority and the Company has made significant investments in order to prevent, detect, and respond to cyber threats. The Company continues to enhance its intrusion protection and detection technology, infrastructure and application firewalls, and network monitoring. The Company has also installed advanced endpoint threat protection technology and implemented a mandatory security awareness training program for all employees. This training is reinforced through periodic simulated phishing tests.

The Company uses a sophisticated backup and recovery situation that supports the replication of data across multiple secure data centers. It also includes a comprehensive disaster recovery plan that is continually tested to ensure capabilities to resume business in the event of a disaster. The Company’s technology environment is managed by an experienced team of professionals who follow an extensive set of policies and procedures related to data security. Through recurring internal and external audits, controls are regularly reviewed, tested, and enhanced to ensure best practices. The Company has augmented the information security program through a partnership with a leading global cybersecurity service provider to review and implement additional services such as Security Event Monitoring, Advanced Endpoint Threat Detection, Incident Management Retainer Services, and Strategic Advisory Services focused on Chief Information Security Officer (CISO) duties such as counter-threat intelligence.

The information security program also includes a cybersecurity Incident Response Plan (“IRP”) that was established to help protect the integrity, availability and confidentiality of information, prevent loss of service, and comply with legal requirements. The IRP specifies the process for identifying and reporting an incident, initial investigation, risk classification, documentation and communication of incidents, responder procedures, incident reporting, and ongoing training. Additionally, the IRP specifies the notification to directors, officers, and other corporate insiders to not trade the Company’s securities while in possession of potentially material nonpublic information about the incident.

The Audit Committee of the Board of Directors has oversight of the Company’s information security program. The Company’s senior officers, including its Chief Information Officer, are responsible for the operation of the information security program and regularly communicate with the Audit Committee on the state of the program.

The Company also maintains dedicated cyber liability insurance for breach event costs, including: post breach event remediation costs; cyber crime coverage (including financial fraud, telecommunications fraud, and phishing attacks); and coverage for system failure, bricking loss, and physical damage. The policy also provides coverage for lost revenue due to a damaged reputation from a cyber breach.

Investments

Investment income represents a significant portion of the Company's operating and total income. Insurance company investments are subject to state insurance laws and regulations which limit the concentration and types of investments. The following table provides information on the Company's investments as of the dates indicated.

	December 31,			
	2021		2020	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 50,298	17.7%	\$ 30,762	11.0%
States, municipalities and political subdivisions	11,644	4.2	11,802	4.2
Public utilities	13,952	4.9	13,651	4.9
All other corporate bonds	184,842	65.2	197,641	70.8
Redeemable preferred stock	250	0.1	250	0.1
Total fixed maturities ⁽¹⁾	260,986	92.1	254,106	91.0
Equity securities ⁽²⁾	19,124	6.7	18,716	6.7
Other invested assets ⁽³⁾	198	0.1	3,238	1.2
Policy loans ⁽⁴⁾	1,858	0.7	1,975	0.7
Real estate	38	0.0	38	0.0
Investments in unconsolidated trusts	1,238	0.4	1,238	0.4
Total investments	\$ 283,442	100.0%	\$ 279,311	100.0%

- (1) Fixed maturities are carried on the balance sheet at estimated fair value. Certain fixed maturities do not have publicly quoted prices, and are carried at estimated fair value as determined by management. Total amortized cost of fixed maturities was \$238.6 million as of December 31, 2021 and \$222.5 million as of December 31, 2020.
- (2) Equity securities are carried on the balance sheet at estimated fair value. Total cost of equity securities was \$4.9 million as of December 31, 2021 and \$6.4 million as of December 31, 2020.
- (3) Other invested assets are accounted for using the equity method. Total cost of other invested assets was \$0.7 million as of December 31, 2021 and \$3.8 million as of December 31, 2020.
- (4) Policy loans are valued at unpaid principal balances.

Estimated fair values are determined as discussed in Note 1 of Notes to Consolidated Financial Statements.

Results of the Company's investment portfolio for periods shown were as follows:

	Year Ended December 31,	
	2021	2020
	(Dollars in thousands)	
Average investments ⁽¹⁾	\$ 260,240	\$ 252,141
Net investment income	8,528	7,744
Average yield on investments	3.3%	3.1%
Realized investment gains, net	4,903	7,420

- (1) Calculated as the average of cash and investment balances (at amortized cost) at the beginning of the year and at the end of each of the succeeding four quarters.

The Company engages a global investment management firm serving the insurance industry to manage the Company's investment portfolios. Management's recent investment strategy has been a continued focus on quality and diversification, while improving the overall risk versus return profile of the portfolio.

Human Capital

The Company and its subsidiaries employed 140 people at December 31, 2021. Of the 140 people, 138 were full-time. We believe that our ability to attract and retain highly motivated and skilled corporate employees with diverse backgrounds and experiences is critical to our continued success. We also believe the structure of our compensation program is aligned with the interests of our shareholders and serves to reward the performance of our employees. We monitor and evaluate the effectiveness of our human capital management efforts by seeking formal and informal feedback from our corporate employees, including periodic surveys to obtain opinions on key topics.

We sponsor health and wellness programs in an effort to support a healthier employee base. We also offer competitive health and wellbeing benefits to include health, dental, vision, health and flexible savings accounts, disability, life, supplemental and telemedicine. An Employee Assistance Program (“EAP”) is provided to all full-time employees and their family members at no cost. The EAP offers confidential telephonic counseling, referral services, legal and financial services and additional tools that offer support and solutions. Additionally, we offer a 401(k) retirement savings plan with an employer match as well as an annual Safe Harbor Non-Elective contribution.

We strive to provide a work environment that encourages work/life balance. Options depend on job responsibilities and may include flexible work schedules, paid time off, paid holidays and part-time employment.

We offer tuition reimbursement along with budgeted professional development opportunities in order to foster professional growth and to increase skillsets.

The Company requires all employees to be fully vaccinated against COVID-19 where allowable under the law, unless they are approved for a reasonable accommodation based on disability, medical condition or religious belief that prevents them from being vaccinated.

Financial Information by Industry Segment

American Southern and Bankers Fidelity each operate with relative autonomy and each company is evaluated on its individual performance. American Southern operates in the property and casualty insurance market, while Bankers Fidelity operates in the life and health insurance market. Each segment derives revenue from the collection of premiums, as well as from investment income. Substantially all revenue other than that in the corporate and other segment is from external sources. For more information on segments, see Note 15 of Notes to Consolidated Financial Statements.

Available Information

The Company files annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports and other information with the Securities and Exchange Commission (the “SEC”). The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, including the Company. In addition, as soon as reasonably practicable after such materials are filed with or furnished to the SEC by the Company, the Company makes copies available to the public, free of charge, on or through its web site at www.atlam.com. Neither the Company’s website, nor the information appearing on the website, is included, incorporated into, or a part of, this report.

Executive Officers of the Registrant

The table and information below set forth, for each current executive officer of the Company, his name, age (as of March 1, 2022), positions with the Company and business experience for the past five years, as well as any prior service to the Company.

Name	Age	Positions with the Company	Director or Officer Since
Hilton H. Howell, Jr.	59	Chairman of the Board, President & CEO	1992
J. Ross Franklin	44	Vice President, CFO and Corporate Secretary	2017

Officers are elected annually and serve at the discretion of the board of directors.

Mr. Howell has been President and Chief Executive Officer of the Company since May 1995, and prior thereto served as Executive Vice President of the Company from October 1992 to May 1995. He has been a Director of the Company since October 1992 and effective February 24, 2009, began serving as Chairman of the board of directors. He is also Executive Chairman and Chief Executive Officer of Gray Television, Inc.

Mr. Franklin has been Vice President, Chief Financial Officer and Corporate Secretary of the Company since November 2017, and prior thereto served as Interim Chief Financial Officer from August 2017 to November 2017. Since 2000 he has held various roles of increasing responsibility with Atlantic American and its subsidiaries, previously serving as Vice President, Accounting and Treasurer of Bankers Fidelity since 2009.

Item 1A. Risk Factors

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K (a “smaller reporting company”), we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the information required by this Item.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Leased Properties. The Company leases space for its principal offices and for some of its insurance operations in an office building located in Atlanta, Georgia, from Delta Life Insurance Company under a lease which continues until either party provides written notice of cancellation at least twelve months in advance of the actual termination date. The lease, which commenced on November 1, 2007, provides for rent adjustments on every fifth anniversary of the commencement date. Under the current terms of the lease, the Company occupies approximately 49,586 square feet of office space. Delta Life Insurance Company, the owner of the building, is controlled by an affiliate of the Company.

American Southern leases space for its office in a building located in Atlanta, Georgia. The lease term expires September 30, 2026. Under the terms of the lease, American Southern occupies approximately 17,014 square feet.

The Company believes that its current properties are in good condition, and are sufficient for the operations of its business.

Item 3. Legal Proceedings

From time to time, the Company and its subsidiaries are, and expect to continue to be, involved in various claims and lawsuits arising in the ordinary course of business, both as a liability insurer defending third-party claims brought against insureds and as an insurer defending coverage claims brought against it, and in various regulatory proceedings in the states in which we do business. The Company accounts for such exposures through the establishment of loss and loss adjustment expense reserves and accrued expenses. We currently do not expect that the ultimate liability, if any, with respect to such ordinary-course claims litigation or regulatory proceedings, after consideration of provisions made for probable losses and costs of defense, will be material to the Company’s consolidated financial condition, although the results of such matters could be material to the consolidated results of operations for any given period.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The Company’s common stock is listed on the Nasdaq Global Market (Symbol: AAME). As of March 16, 2022, there were 4,946 shareholders of record.

On March 22, 2022, the Company’s board of directors declared an annual cash dividend of \$0.02 per share of common stock that is payable to shareholders of record as of the close of business on April 13, 2022. Payment of any dividends in the future will be at the discretion of the Company’s board of directors and will depend upon the financial condition, capital requirements, and earnings of the Company, as well as any restrictions contained in any agreements by which the Company is bound and other factors as the board of directors may deem relevant. The Company’s primary recurring source of cash for the payment of dividends is dividends from its subsidiaries; although as of December 31, 2021, the Parent held unrestricted cash and investment balances of approximately \$4.5 million. Under the insurance code of the state in which each insurance subsidiary is domiciled, dividend payments to the Company by its insurance subsidiaries are subject to certain limitations, including prior notice to, or approval by, the state insurance commissioners if such dividends are in excess of specified amounts. In 2021, dividend payments to the Parent by the insurance subsidiaries in excess of \$5.6 million would require prior approval.

Issuer Purchases of Equity Securities

On October 31, 2016, the Board of Directors of the Company approved a plan that allows for the repurchase of up to 750,000 shares of the Company’s common stock (the “Repurchase Plan”) on the open market or in privately negotiated transactions, as determined by an authorized officer of the Company. Any such repurchases can be made from time to time in accordance with applicable securities laws and other requirements.

Other than pursuant to the Repurchase Plan, no purchases of common stock of the Company were made by or on behalf of the Company during the periods described below.

The table below sets forth information regarding repurchases by the Company of shares of its common stock on a monthly basis during the three month period ended December 31, 2021.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
October 1 – October 31, 2021	—	\$ —	—	325,129
November 1 – November 30, 2021	—	—	—	325,129
December 1 – December 31, 2021	—	—	—	325,129
Total	<u>—</u>	<u>\$ —</u>	<u>—</u>	

Stock Performance Graph

As a smaller reporting company, we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the information required by this Item.

Item 6. Reserved

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following is management’s discussion and analysis of the financial condition and results of operations of Atlantic American Corporation (“Atlantic American” or the “Parent”) and its subsidiaries (collectively with the Parent, the “Company”) for the years ended December 31, 2021 and 2020. This discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere herein.

Atlantic American is an insurance holding company whose operations are conducted primarily through its insurance subsidiaries: American Southern Insurance Company and American Safety Insurance Company (together known as “American Southern”) in the property and casualty insurance industry, and Bankers Fidelity Life Insurance Company and Bankers Fidelity Assurance Company (together known as “Bankers Fidelity”) in the life and health insurance industry. Each operating company is managed separately, offers different products and is evaluated on its individual performance.

Critical Accounting Policies

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and, in management’s belief, conform to general practices within the insurance industry. The following is an explanation of the Company’s accounting policies and the resultant estimates considered most significant by management. These accounting policies inherently require significant judgment and assumptions and actual operating results could differ significantly from management’s estimates determined using these policies. Atlantic American does not expect that changes in the estimates determined using these policies will have a material effect on the Company’s financial condition or liquidity, although changes could have a material effect on its consolidated results of operations.

Cash and investments comprised 77% of the Company’s total assets at December 31, 2021. Substantially all of the Company’s investments are in bonds and common and preferred stocks, the values of which are subject to significant market fluctuations. The Company carries all fixed maturities, which includes bonds and redeemable preferred stocks, and equity securities, which includes common and non-redeemable preferred stocks, as available for sale and, accordingly, at their estimated fair values. On occasion, the value of a fixed maturity investment may decline to a value below its amortized purchase price and remain at such value for an extended period of time. When a fixed maturity investment’s indicated fair value has declined below its cost basis for a period of time, the Company evaluates such investment for an other than temporary impairment. The evaluation for an other than temporary impairment is a quantitative and qualitative process, which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. Potential risks and uncertainties include, among other things, changes in general economic conditions, an issuer’s financial condition or near term recovery prospects and the effects of changes in interest rates. In evaluating a potential impairment, the Company considers, among other factors, management’s intent and ability to hold the securities until price recovery, the nature of the investment and the expectation of prospects for the issuer and its industry, the status of an issuer’s continued satisfaction of its obligations in accordance with their contractual terms, and management’s expectation as to the issuer’s ability and intent to continue to do so, as well as ratings actions that may affect the issuer’s credit status. If an other than temporary impairment is deemed to exist, then the Company will write down the amortized cost basis of the investment to its estimated fair value. While any such write down does not impact the reported value of the investment in the Company’s balance sheet, it is reflected as a realized investment loss in the Company’s net income or other comprehensive income, depending upon the nature of the loss, in the period incurred.

The Company determines the fair values of certain financial instruments based on the fair value hierarchy established in Accounting Standards Codification (“ASC”) 820-10-20, *Fair Value Measurements and Disclosures* (“ASC 820-10-20”). The fair values of fixed maturities and equity securities are largely determined by nationally quoted market prices, when available, or independent broker quotations. See Note 2 and Note 3 of Notes to Consolidated Financial Statements with respect to assets and liabilities carried at fair value and information about the inputs used to value those financial instruments, by hierarchy level, in accordance with ASC 820-10-20.

Future policy benefits comprised 33% of the Company’s total liabilities at December 31, 2021. These liabilities relate primarily to life insurance products and are based upon assumed future investment yields, mortality rates, and lapse rates after giving effect to possible risks of adverse deviation. The assumed mortality and lapse rates are based upon the Company’s experience modified as necessary to reflect anticipated trends and are generally established at contract inception. If actual results differ from the initial assumptions, the amount of the Company’s recorded liability could require adjustment.

Unpaid loss and loss adjustment expenses comprised 33% of the Company's total liabilities at December 31, 2021. This liability includes estimates for: 1) unpaid losses on claims reported prior to December 31, 2021, 2) future development on those reported claims, 3) unpaid ultimate losses on claims incurred prior to December 31, 2021 but not yet reported and 4) unpaid loss adjustment expenses for reported and unreported claims incurred prior to December 31, 2021. Quantification of loss estimates for each of these components involves a significant degree of judgment and estimates may vary, materially, from period to period. Estimated unpaid losses on reported claims are developed based on historical experience with similar claims by the Company. Development on reported claims, estimates of unpaid ultimate losses on claims incurred prior to December 31, 2021 but not yet reported, and estimates of unpaid loss adjustment expenses are developed based on the Company's historical experience, using actuarial methods to assist in the analysis. The Company's actuaries develop ranges of estimated development on reported and unreported claims as well as loss adjustment expenses using various methods, including the paid-loss development method, the reported-loss development method, the paid Bornhuetter-Ferguson method and the reported Bornhuetter-Ferguson method. Any single method used to estimate ultimate losses has inherent advantages and disadvantages due to the trends and changes affecting the business environment and the Company's administrative policies. Further, external factors, such as legislative changes, medical cost inflation, and others may directly or indirectly impact the relative adequacy of liabilities for unpaid losses and loss adjustment expenses. The Company's approach is to select an estimate of ultimate losses based on comparing results of a variety of reserving methods, as opposed to total reliance on any single method. Unpaid loss and loss adjustment expenses are reviewed periodically for significant lines of business, and when current results differ from the original assumptions used to develop such estimates, the amount of the Company's recorded liability for unpaid loss and loss adjustment expenses is adjusted. In the event the Company's actual reported losses in any period are materially in excess of the previously estimated amounts, such losses, to the extent reinsurance coverage does not exist, could have a material adverse effect on the Company's results of operations.

Receivables are amounts due from reinsurers, insureds and agents, and any sales of investment securities not yet settled, and comprised 11% of the Company's total assets at December 31, 2021. Insured and agent balances are evaluated periodically for collectibility. Annually, the Company performs an analysis of the creditworthiness of the reinsurers with whom the Company contracts using various data sources. Failure of reinsurers to meet their obligations due to insolvencies, disputes or otherwise could result in uncollectible amounts and losses to the Company. Allowances for uncollectible amounts are established, as and when a loss has been determined probable, against the related receivable. Losses are recognized by the Company when determined on a specific account basis and a general provision for loss is made based on the Company's historical experience.

Deferred acquisition costs comprised 10% of the Company's total assets at December 31, 2021. Deferred acquisition costs are commissions, premium taxes, and other incremental direct costs of contract acquisition that results directly from and are essential to the contract transaction(s) and would not have been incurred by the Company had the contract transaction(s) not occurred. The deferred amounts are recorded as an asset on the balance sheet and amortized to expense in a systematic manner. Traditional life insurance and long-duration health insurance deferred policy acquisition costs are amortized over the estimated premium-paying period of the related policies using assumptions consistent with those used in computing the related liability for policy benefit reserves. Deferred acquisition costs for property and casualty insurance and short-duration health insurance are amortized over the effective period of the related insurance policies. Deferred policy acquisition costs are expensed when such costs are deemed not to be recoverable from future premiums (for traditional life and long-duration health insurance) and from the related unearned premiums and investment income (for property and casualty and short-duration health insurance). Assessments of recoverability for property and casualty and short-duration health insurance are extremely sensitive to the estimates of a subsequent year's projected losses related to the unearned premiums. Projected loss estimates for a current block of business for which unearned premiums remain to be earned may vary significantly from the indicated losses incurred in any previous calendar year.

Deferred income taxes reflect the effect of temporary differences between assets and liabilities that are recognized for financial reporting purposes and the amounts that are recognized for tax purposes. These deferred income taxes are measured by applying currently enacted tax laws and rates. Valuation allowances are recognized to reduce the deferred tax asset to the amount that is deemed more likely than not to be realized. In assessing the likelihood of realization, management considers estimates of future taxable income and tax planning strategies.

Share-based transactions include employee and director *share-based compensation awards*. The Company determines a grant date fair value based on the price of our publicly-traded common stock and recognize the related compensation expense, adjusted for actual forfeitures, in the consolidated statement of operations on a straight-line basis over the requisite service period for the entire award. For non-employee share-based compensation awards, the Company recognizes the impact during the period of performance, and the fair value of the award is measured as of the date performance is complete, which is the vesting date.

Refer to Note 1 of Notes to Consolidated Financial Statements for details regarding the Company's significant accounting policies.

Overall Corporate Results

	Year Ended December 31,	
	2021	2020
	(In thousands)	
Revenue		
Property and Casualty:		
American Southern	\$ 73,868	\$ 69,179
Life and Health:		
Bankers Fidelity	125,702	127,144
Corporate and Other	(16)	(975)
Total revenue	\$ 199,554	\$ 195,348
Income before income taxes		
Property and Casualty:		
American Southern	\$ 9,292	\$ 10,436
Life and Health:		
Bankers Fidelity	3,726	12,430
Corporate and Other	(7,716)	(7,363)
Income before income taxes	\$ 5,302	\$ 15,503
Net income	\$ 4,281	\$ 12,169

Management also considers and evaluates performance by analyzing the non-GAAP measure operating income or loss, and believes it is a useful metric for investors, potential investors, securities analysts and others because it isolates the “core” operating results of the Company before considering certain items that are either beyond the control of management (such as income tax expense, which is subject to timing, regulatory and rate changes depending on the timing of the associated revenues and expenses) or are not expected to regularly impact the Company’s operational results (such as any realized or unrealized investment gains or losses, which are not a part of the Company’s primary operations and are, to a limited extent, subject to discretion in terms of timing of realization).

A reconciliation of net income, the most directly comparable GAAP measure, to operating income (loss) is as follows:

	Year Ended December 31,	
	2021	2020
	(In thousands)	
Reconciliation of Non-GAAP Financial Measure		
Net income	\$ 4,281	\$ 12,169
Income tax expense	1,021	3,334
Realized investment gains, net	(4,903)	(7,420)
Unrealized (gains) losses on equity securities, net	(1,894)	3,431
Non-GAAP operating income (loss)	\$ (1,495)	\$ 11,514

On a consolidated basis, the Company had net income of \$4.3 million, or \$0.19 per diluted share, in 2021, compared to net income of \$12.2 million, or \$0.56 per diluted share, in 2020. Operating loss was \$1.5 million in 2021 as compared to operating income of \$11.5 million in 2020. The decrease in operating income was primarily due to less favorable loss experience in the life and health operations, resulting from a significant increase in the number of claims incurred in the Medicare supplement line of business. This increase in the number of incurred claims was primarily attributable to the increase in utilization of Medicare supplement insurance benefits, returning to historical averages relative to the exceptionally low utilization experienced after the onset of the COVID-19 pandemic when many policyholders were sheltered in place.

Total revenue was \$199.6 million in 2021 as compared to \$195.3 million in 2020. Premium revenue increased to \$184.2 million in 2021 from \$183.5 million in 2020. The increase in premium revenue was primarily due to an increase in the automobile physical damage line of business within the property and casualty operations. Partially offsetting the increase in premium revenue was a decrease in the Medicare supplement line of business in the life and health operations.

A more detailed analysis of the operating companies and other corporate activities follows.

UNDERWRITING RESULTS

American Southern

The following table summarizes, for the periods indicated, American Southern's premiums, losses, expenses and underwriting ratios:

	Year Ended December 31,	
	2021	2020
	(Dollars in thousands)	
Gross written premiums	\$ 75,914	\$ 70,256
Ceded premiums	(6,511)	(5,890)
Net written premiums	\$ 69,403	\$ 64,366
Net earned premiums	\$ 67,982	\$ 62,372
Insurance benefits and losses incurred	44,433	39,339
Commissions and underwriting expenses	20,143	19,404
Underwriting income	\$ 3,406	\$ 3,629
Loss ratio	65.4%	63.1%
Expense ratio	29.6	31.1
Combined ratio	95.0%	94.2%

Gross written premiums at American Southern increased \$5.7 million, or 8.1%, during 2021 as compared to 2020. The increase in gross written premiums was primarily attributable to an increase in premiums written in the automobile physical damage line of business from existing agencies, as well as an increase in gross written premiums in the general liability line of business as a result of a new program that started in the second half of 2020.

Ceded premiums increased \$0.6 million, or 10.5%, during 2021 as compared to 2020. American Southern's ceded premiums are typically determined as a percentage of earned premiums and generally increase or decrease as earned premiums increase or decrease. Contributing to the increase in ceded premiums was an increase in earned premiums in certain accounts within the automobile physical damage and general liability lines of business, which are subject to reinsurance. Also contributing to the ceded premium increase was a rate increase on catastrophe reinsurance.

The following table summarizes, for the periods indicated, American Southern's net earned premiums by line of business:

	Year Ended December 31,	
	2021	2020
	(In thousands)	
Automobile liability	\$ 30,453	\$ 30,312
Automobile physical damage	22,917	18,730
General liability	5,637	3,891
Surety	5,620	5,857
Other lines	3,355	3,582
Total	\$ 67,982	\$ 62,372

Net earned premiums increased \$5.6 million, or 9.0%, during 2021 as compared to 2020. The increase in net earned premiums was primarily attributable to an increase in automobile physical damage coverage resulting from existing agencies and an increase in general liability as a result of a new program as previously mentioned. Partially offsetting the increase in net earned premiums was a decrease in the surety line of business primarily attributable to marketplace competition, as well as a decrease in the other lines of business resulting from the termination of a program. Premiums are earned ratably over their respective policy terms and therefore premiums earned in the current year are related to policies written during both the current year and immediately preceding year.

The performance of an insurance company is often measured by its combined ratio. The combined ratio represents the percentage of losses, loss adjustment expenses and other expenses that are incurred for each dollar of premium earned by the company. A combined ratio of under 100% represents an underwriting profit while a combined ratio of over 100% indicates an underwriting loss. The combined ratio is divided into two components, the loss ratio (the ratio of losses and loss adjustment expenses incurred to premiums earned) and the expense ratio (the ratio of expenses incurred to premiums earned).

Insurance benefits and losses incurred at American Southern increased \$5.1 million, or 12.9%, during 2021 as compared to 2020. As a percentage of premiums, insurance benefits and losses incurred were 65.4% in 2021 as compared to 63.1% in 2020. The increase in the loss ratio was primarily due to less favorable loss experience in the automobile physical damage line of business due to an increase in frequency of claims resulting from both inclement weather throughout the year and an increase in the number of insureds in 2021. Also contributing to the increase in the loss ratio was an increase in the number of claims within the surety line of business.

Commissions and underwriting expenses increased \$0.7 million, or 3.8%, during 2021 as compared to 2020. As a percentage of premiums, these expenses were 29.6% in 2021 as compared to 31.1% in 2020. The decrease in the expense ratio was primarily due to the increase in earned premiums. Partially offsetting the decrease in expense ratio was American Southern's use of a variable commission structure with certain agents, which compensates the participating agents in relation to the loss ratios of the business they write. During periods in which the loss ratio decreases, commissions and underwriting expenses will generally increase, and conversely, during periods in which the loss ratio increases, commissions and underwriting expenses will generally decrease. In 2021, variable commissions at American Southern increased \$0.6 million as compared to 2020 due to improved loss ratios from certain accounts subject to variable commissions.

In establishing reserves, American Southern initially reserves for losses at the higher end of the reasonable range if no other value within the range is determined to be more probable. Selection of such an initial loss estimate is an attempt by management to give recognition that initial claims information received generally is not conclusive with respect to legal liability, is generally not comprehensive with respect to magnitude of loss and generally, based on historical experience, will develop more adversely as time passes and more information becomes available. However, as a result, American Southern generally experiences reserve redundancies when analyzing the development of prior year losses in the current period. At December 31, 2021, the range of estimates developed in connection with the loss reserves for American Southern indicated that reserves could be as much as 12.2% lower or as much as 3.1% higher. Development from prior years' reserves has historically reduced the current year loss ratio; however, such reduction in the current year loss ratio is generally offset by the reserves established in the current year for current period losses. Management believes that such differences will continue in future periods, but is unable to determine if or when incremental redundancies will increase or decrease until the underlying losses are ultimately settled.

Contingent commissions, if contractually applicable, are ultimately payable to participating agents based on the underlying profitability of a particular insurance contract or a group of insurance contracts, and are periodically evaluated and accrued as earned. In each of 2021 and 2020, approximately 47% of American Southern's earned premium provides for contractual commission arrangements which compensate the company's agents in relation to the loss ratios of the business they write. By structuring its business in this manner, American Southern provides its agents with an economic incentive to place profitable business with American Southern. In periods in which loss reserves reflect favorable development from prior years' reserves, there is generally a highly correlated increase in commission expense also related to the prior year business. Accordingly, favorable loss development from prior years, while anticipated to continue in future periods, is not an indicator of significant additional profitability in the current year.

Bankers Fidelity

The following summarizes, for the periods indicated, Bankers Fidelity's premiums, losses and expenses:

	Year Ended December 31,	
	2021	2020
	(Dollars in thousands)	
Medicare supplement	\$ 162,400	\$ 174,525
Other health products	10,364	9,218
Life insurance	10,624	9,348
Gross earned premiums	183,388	193,091
Ceded premiums	(67,154)	(71,924)
Net earned premiums	116,234	121,167
Insurance benefits and losses incurred	87,261	80,537
Commissions and underwriting expenses	34,715	34,177
Total expenses	121,976	114,714
Underwriting income (loss)	\$ (5,742)	\$ 6,453
Loss ratio	75.1%	66.5%
Expense ratio	29.9	28.2
Combined ratio	105.0%	94.7%

Net earned premium revenue at Bankers Fidelity decreased \$4.9 million, or 4.1%, during 2021 as compared to 2020. Gross earned premiums from the Medicare supplement line of business decreased \$12.1 million, or 6.9%, in 2021 as compared to 2020, due primarily to non-renewals exceeding the level of new business writings. Other health product premiums increased \$1.1 million, or 12.4%, during 2021 as compared to 2020, primarily as a result of new sales of the company's group health and individual cancer products. Gross earned premiums from the life insurance line of business increased \$1.3 million, or 13.6%, in 2021 from 2020 due to an increase in the group life product premiums. Partially offsetting this increase was a decline in individual life products premium, resulting from the redemption and settlement of existing individual life policy obligations exceeding the level of new individual life sales. Premiums ceded decreased \$4.8 million, or 6.6%, in 2021 from 2020. The decrease in ceded premiums was due to a decrease in Medicare supplement premiums subject to reinsurance.

Insurance benefits and losses incurred increased \$6.7 million, or 8.3%, during 2021 as compared to 2020. As a percentage of premiums, benefits and losses were 75.1% in 2021 as compared to 66.5% in 2020. The increase in the loss ratio was primarily due to an increase in the number of claims incurred in the Medicare supplement line of business. During 2021, utilization of Medicare supplement insurance benefits increased, returning to historical averages relative to the exceptionally low utilization experienced after the onset of the COVID-19 pandemic when many policyholders were sheltered in place. Also contributing to the increase in the loss ratio was an increase in both the group and individual life lines of business.

Commissions and underwriting expenses increased \$0.5 million, or 1.6%, during 2021 as compared to 2020. As a percentage of earned premiums, these expenses were 29.9% in 2021 as compared to 28.2% in 2020. The increase in the expense ratio was primarily due to the amortization of deferred acquisition costs (“DAC”) exceeding the level of additions to DAC. The increase in the net amortization of DAC during 2021 is primarily due to non-renewals exceeding the level of new business writings in the Medicare supplement line of business, as previously mentioned. Also contributing to the increase in the expense ratio was an increase in expenses related to servicing the Medicare supplement line of business.

Net Investment Income and Realized Gains

Investment income increased \$0.8 million, or 10.1%, in 2021 as compared to 2020. The increase in investment income was primarily attributable to an increase in the equity in earnings from investments in the Company’s limited partnerships and limited liability companies of \$0.7 million.

The Company had net realized investment gains of \$4.9 million in 2021 as compared to net realized investment gains of \$7.4 million in 2020. The net realized investment gains in 2021 were primarily attributable to gains of \$4.3 million from the sale of the Company’s interest in a certain limited liability company as well as gains from the sale of a number of the Company’s investments in fixed maturities. The net realized investment gains in 2020 were primarily attributable to gains of \$6.9 million from the sale of the Company’s interest in a certain limited liability company as well as gains from the sale of a number of the Company’s investments in fixed maturities. Management continually evaluates the Company’s investment portfolio and, as may be determined to be appropriate, makes adjustments for impairments and/or will divest investments. See Note 2 of Notes to Consolidated Financial Statements.

Unrealized Gains (Losses) on Equity Securities, Net

Investments in equity securities are measured at fair value at the end of the reporting period, with any changes in fair value reported in net income during the period. The Company recognized net unrealized gains on equity securities of \$1.9 million and unrealized losses on equity securities of \$3.4 million during the years ended December 2021 and 2020, respectively. Changes in unrealized gains on equity securities for the applicable periods are primarily the result of fluctuations in the market value of certain of the Company’s equity securities.

Interest Expense

Interest expense decreased \$0.2 million, or 13.9%, in 2021 as compared to 2020. Changes in interest expense were primarily due to changes in the London Interbank Offered Rate (“LIBOR”), as the interest rates on the Company’s outstanding junior subordinated deferrable interest debentures (“Junior Subordinated Debentures”) are directly related to LIBOR. The Company is preparing for the expected discontinuation of LIBOR by identifying, assessing and monitoring risks associated with LIBOR transition. Preparation includes taking steps to update operational processes to support alternative reference rates and models, as well as evaluating legacy contracts for any changes that may be required, including the determination of applicable fallbacks.

Income Taxes

The primary differences between the effective tax rate and the federal statutory income tax rate for 2021 resulted from the adjustment for prior years’ estimates to actual that are generally updated at the completion of the third quarter of each fiscal year and were \$0.09 million in the year ended December 31, 2021. Also contributing to differences between the effective tax rate and the federal statutory income tax rate were permanent differences related to meals and entertainment and vested stock and club dues. Another contributing factor was the dividends-received deduction (“DRD”). The current estimated DRD is adjusted as underlying factors change and can vary from estimates based on, but not limited to, actual distributions from investments as well as the amount of the Company’s taxable income.

The primary differences between the effective tax rate and the federal statutory income tax rate for 2020 resulted from permanent differences related to meals and entertainment and vested stock and club dues. Also contributing to differences between the effective tax rate and the federal statutory income tax rate were adjustment for prior years’ estimates to actual that are generally updated at the completion of the third quarter of each fiscal year and were \$0.02 million in the year ended December 31, 2020.

Liquidity and Capital Resources

The primary cash needs of the Company are for the payment of claims and operating expenses, maintaining adequate statutory capital and surplus levels, and meeting debt service requirements. Current and expected patterns of claim frequency and severity may change from period to period, but generally are expected to continue within historical ranges. The Company's primary sources of cash are written premiums, investment income and proceeds from the sale and maturity of its invested assets. The Company believes that, within each operating company, total invested assets will be sufficient to satisfy all policy liabilities and that cash inflows from investment earnings, future premium receipts and reinsurance collections will be adequate to fund the payment of claims and operating expenses as needed.

Cash flows at the Parent are derived from dividends, management fees, and tax-sharing payments, as described below, from the subsidiaries. The principal cash needs of the Parent are for the payment of operating expenses, the acquisition of capital assets and debt service requirements, as well as the repurchase of shares and payments of any dividends as may be authorized and approved by the Company's board of directors from time to time. At December 31, 2021, the Parent had approximately \$4.5 million of unrestricted cash and investments.

Dividend payments to a parent corporation by its wholly owned insurance subsidiaries are subject to annual limitations and are restricted to 10% of statutory surplus or statutory earnings before recognizing realized investment gains of the individual insurance subsidiaries. At December 31, 2021, the Parent's insurance subsidiaries had an aggregate statutory surplus of \$91.3 million. Dividends were paid to Atlantic American by its subsidiaries totaling \$8.4 million and \$3.9 million in 2021 and 2020, respectively.

The Parent provides certain administrative, purchasing and other services to each of its subsidiaries. The amount charged to and paid by the subsidiaries for these services was \$7.4 million and \$6.7 million in 2021 and 2020, respectively. In addition, the Parent has a formal tax-sharing agreement with each of its insurance subsidiaries. A net total of \$6.7 million and \$1.8 million were paid to the Parent under the tax sharing agreement in 2021 and 2020, respectively.

The Company has two statutory trusts which exist for the exclusive purpose of issuing trust preferred securities representing undivided beneficial interests in the assets of the trusts and investing the gross proceeds of the trust preferred securities in Junior Subordinated Debentures. The outstanding \$18.0 million and \$15.7 million of Junior Subordinated Debentures mature on December 4, 2032 and May 15, 2033, respectively, are callable quarterly, in whole or in part, only at the option of the Company, and have an interest rate of three-month LIBOR plus an applicable margin. The margin ranges from 4.00% to 4.10%. At December 31, 2021, the effective interest rate was 4.22%. The obligations of the Company with respect to the issuances of the trust preferred securities represent a full and unconditional guarantee by the Parent of each trust's obligations with respect to the trust preferred securities. Subject to certain exceptions and limitations, the Company may elect from time to time to defer Junior Subordinated Debenture interest payments, which would result in a deferral of distribution payments on the related trust preferred securities. The Company has not made such an election.

The Company intends to pay its obligations under the Junior Subordinated Debentures using existing cash balances, dividend and tax-sharing payments from the operating subsidiaries, or from existing or potential future financing arrangements.

At December 31, 2021, the Company had 55,000 shares of Series D preferred stock ("Series D Preferred Stock") outstanding. All of the shares of Series D Preferred Stock are held by an affiliate of the Company's controlling shareholder. The outstanding shares of Series D Preferred Stock have a redemption value of \$100 per share; accrue annual dividends at a rate of \$7.25 per share (payable in cash or shares of the Company's common stock at the option of the board of directors of the Company) and are cumulative. In certain circumstances, the shares of the Series D Preferred Stock may be convertible into an aggregate of approximately 1,378,000 shares of the Company's common stock, subject to certain adjustments and provided that such adjustments do not result in the Company issuing more than approximately 2,703,000 shares of common stock without obtaining prior shareholder approval; and are redeemable solely at the Company's option. The Series D Preferred Stock is not currently convertible. The Company had accrued, but unpaid, dividends on the Series D Preferred Stock of \$17,722 at December 31, 2021 and 2020. During each of 2021 and 2020, the Company paid Series D Preferred Stock dividends of \$0.4 million.

Bankers Fidelity Life Insurance Company ("BFLIC") is a member of the Federal Home Loan Bank of Atlanta ("FHLB"), for the primary purpose of enhancing financial flexibility. As a member, BFLIC can obtain access to low-cost funding and also receive dividends on FHLB stock. The membership arrangement established initial credit availability of five percent of statutory admitted assets, or approximately \$8 million. Additional FHLB stock purchases may be required based upon the amount of funds borrowed from the FHLB. As of December 31, 2021, BFLIC has pledged bonds having an amortized cost of \$5.4 million to the FHLB. BFLIC may be required to post additional acceptable forms of collateral for any borrowings that it makes in the future from the FHLB. As of 2021, BFLIC does not have any outstanding borrowings from the FHLB.

On May 12, 2021, the Company entered into a Revolving Credit Agreement (the "Credit Agreement") with Truist Bank as the lender (the "Lender"). The Credit Agreement provides for an unsecured \$10 million revolving credit facility that matures on April 12, 2024. Under the Credit Agreement, the Company will pay interest on the unpaid principal balance of outstanding revolving loans at the LIBOR Rate (as defined in the Credit Agreement) plus 2.00%, subject to a LIBOR floor rate of 1.00%.

The Credit Agreement requires the Company to comply with certain covenants, including a debt to capital ratio that restricts the Company from incurring consolidated indebtedness that exceeds 35% of the Company's consolidated capitalization at any time. The Credit Agreement also contains customary representations and warranties and events of default. Events of default include, among others, (a) the failure by the Company to pay any amounts owed under the Credit Agreement when due, (b) the failure to perform and not timely remedy certain covenants, (c) a change in control of the Company and (d) the occurrence of bankruptcy or insolvency events. Upon an event of default, the Lender may, among other things, declare all obligations under the Credit Agreement immediately due and payable and terminate the revolving commitments. As of December 31, 2021, the Company does not have any outstanding borrowings under the Credit Agreement.

Cash and cash equivalents increased from \$19.3 million at December 31, 2020 to \$24.8 million at December 31, 2021. The increase in cash and cash equivalents during 2021 was primarily attributable to an increase in cash provided by investing activities of \$5.4 million as a result of investment sales and maturity of securities exceeding investment purchases. Also contributing to the increase in cash was net cash provided by operating activities of \$1.1 million. Partially offsetting the increase were dividends paid on common stock of \$0.4 million and dividends paid on the Company's Series D Preferred Stock of \$0.4 million.

The Company believes that existing cash balances as well as the dividends, fees, and tax-sharing payments it expects to receive from its subsidiaries and, if needed, additional borrowings from financial institutions, will enable the Company to meet its liquidity requirements for the foreseeable future. Management is not aware of any current recommendations by regulatory authorities, which, if implemented, would have a material adverse effect on the Company's liquidity, capital resources or operations.

Expected Impact of COVID-19 on the Company's Financial Condition and Results of Operations

The duration and ultimate impact of the COVID-19 pandemic remains unknown at this time and it is not possible for us to reliably estimate the impact on the financial condition, operating results or liquidity of the Company and its operating subsidiaries in future periods. However, we do not currently expect a significant decline in liquidity or operating results as a result of the disruption caused by the ongoing COVID-19 pandemic. To date, the most significant impact of COVID-19 on the Company's financial position has been volatility in the fair value of the Company's fixed maturity and equity investments due to disruption in the financial markets.

We expect that earned premiums could be adversely impacted by a weakened economy leading to a slowdown in new sales and reduced retention of insureds. Additionally, a number of states have issued bulletins that either encourage or require premium leniency such as extension of grace periods or moratoriums on cancellation of policies for non-payment. The Company does not expect a significant reduction or delay in payments and continues to monitor state requirements as they develop.

For the Company's property and casualty operations, the majority of premium revenue is derived from automobile liability and automobile physical damage lines of business written on a multi-year contract basis with state and local governments. Although we cannot predict with any certainty at this time, we do not expect a significant level of cancellations or non-renewals of our property and casualty contracts in the short term but recognize that a prolonged economic slowdown could adversely affect future results. However, the Company expects the aforementioned decline in usage to be temporary in nature.

Benefits and losses in our property and casualty operations could be adversely impacted as a result of disruption caused by the COVID-19 pandemic. However, due to the nature of our primary product lines, the impact is not currently expected to be material. As a result, we do not currently expect a material adverse effect on operating results or liquidity in the property and casualty operations.

The majority of premium revenue in our life and health operations are derived from the senior market segment of the population, or those individuals age sixty-five and up, who maintain Medicare supplement and to a lesser extent, whole life insurance policies with the Company. We expect that earned premiums could be adversely impacted by an economic slowdown related to the COVID-19 pandemic and individual, business and government responses thereto, which could lead to a decline in new sales and reduced retention of insureds. As a result, we currently anticipate that the life and health operations may experience a marginal decline in earned premiums although the actual impact cannot be predicted with certainty at this time.

Unforeseen infectious diseases that impact large portions of a population can have an adverse impact on mortality and morbidity, and resultant benefits and losses incurred by the Company's life and health operations. Accordingly, the Company could incur higher costs, potentially similar to prior influenza seasons, as it relates to life insurance claims. During 2020, the Company's individual policyholders were subject to various degrees of shelter in place orders. As a result, the Company experienced lower utilization of certain accident and health benefits, particularly in the Medicare supplement line of business. However, during 2021, utilization of policyholder benefits have returned to historical averages. As a result, and although the ultimate impact cannot be predicted with certainty at this time, the Company does not expect significant adverse development in total benefits and losses incurred in its life and health operations.

New Accounting Pronouncements

See "Recently Issued Accounting Standards" in Note 1 of Notes to Consolidated Financial Statements.

Impact of Inflation

Insurance premiums are established before the amount of losses and loss adjustment expenses, or the extent to which inflation may affect such losses and expenses, are known. Consequently, in establishing its premiums, the Company attempts to anticipate the potential impact of inflation. If, for competitive reasons, premiums cannot be increased to anticipate inflation, this cost would be absorbed by the Company. Inflation also affects the rate of investment return on the Company's investment portfolio with a corresponding effect on investment income. To date, inflation has not had a material effect on the Company's results of operations in any of the periods presented.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the information required by this Item.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Atlantic American Corporation
Atlanta, Georgia

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Atlantic American Corporation and subsidiaries (the Company) as of December 31, 2021 and 2020, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the two years in the period ended December 31, 2021 and the related notes and schedules (collectively, referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles (GAAP).

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 Public Company Accounting Oversight Board (United States) (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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

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

Valuation of Insurance Reserves for Losses and Claims (Claim Reserves)

As reflected on the consolidated balance sheet and discussed in Note 5 to the financial statements, the Company's insurance reserves for losses and claims (claim reserves), were \$85.6 million as of December 31, 2021. The Company's claim reserves relate primarily to its property casualty lines of business and Medicare supplement business. The process of establishing claim reserves requires the use of estimates and judgments based on circumstances underlying the insured loss at the date of accrual. Management's judgments include claims adjusters' evaluations for unpaid claims reported prior to the close of the accounting period, estimates of incurred but not reported (IBNR) claims based on past experience and estimates of loss adjustment expenses.

The principal considerations for our determination that the valuation of claim reserves is a critical audit matter are the high degree of judgment and subjectivity in auditing the actuarial methods and assumptions used in the valuation process, including assumptions around expected loss ratios and reported and paid loss emergence patterns.

Addressing the matter involved performing the following audit procedures, among others:

- Involving our actuarial specialists to assist in our procedures in:
 - o Evaluating the appropriateness of management's actuarial reserving methodologies and assumptions;
 - o Evaluating management's hindsight analyses;
 - o Comparing management's carried reserve to the range calculated by management's specialist for property casualty claim reserves;
- Testing the completeness and accuracy of data provided by management that served as the basis for the actuarial analyses on a sample basis; and
- Evaluating movement of the Company's recorded property casualty claim reserves within the Company's estimated reserve range year over year.

Valuation of Insurance Reserves for Future Policy Benefits (Policy Reserves)

As reflected on the consolidated balance sheet and discussed in Note 5 to the financial statements, the Company's insurance reserves for future policy benefits (policy reserves) were \$87.3 million as of December 31, 2021. Policy reserves are related to life and health insurance policies and are based upon significant assumptions including future investment yields, mortality rates, withdrawal rates and expenses after giving effect to possible risks of unexpected claim experience. These assumptions are based on historical experience modified as necessary to reflect anticipated trends and are generally established at contract inception.

The principal considerations for our determination that the valuation of policy reserves is a critical audit matter are the high degree of judgment required to assess certain assumptions that impact policy reserves and the complexity of the actuarial calculations.

Addressing the matter involved performing the following audit procedures, among others:

- Involving our actuarial specialists to assist in our procedures in:
 - o Evaluating whether the methodology applied by management is consistent in the aggregate with the methodology compliant with GAAP;
 - o Assessing the significant assumptions used by management for new insurance contracts issued during the current year by comparing the significant assumptions noted above to historical experience, observable market data or management's estimates of prospective changes to these assumptions;
 - o Performing an independent recalculation of policy reserves for a sample of contracts for comparison to management's estimate; and
 - o Evaluating management's loss recognition testing of aggregate reserve sufficiency.
- Testing the completeness and accuracy of data used by management in developing assumptions on a sample basis.

/s/ Dixon Hughes Goodman, LLP

We have served as the Company's auditor since 2018.

Atlanta, Georgia

March 25, 2022

ATLANTIC AMERICAN CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2021	2020
	(In thousands, except share and per share data)	
ASSETS		
Cash and cash equivalents	\$ 24,753	\$ 19,319
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost: \$238,597 and \$222,461)	260,986	254,106
Equity securities, at fair value (cost: \$4,907 and \$6,393)	19,124	18,716
Other invested assets (cost: \$698 and \$3,765)	198	3,238
Policy loans	1,858	1,975
Real estate	38	38
Investment in unconsolidated trusts	1,238	1,238
Total investments	283,442	279,311
Receivables:		
Reinsurance	27,416	29,086
Insurance premiums and other, net of allowance for doubtful accounts of \$188 and \$198 as of 2021 and 2020, respectively	14,959	27,512
Deferred income taxes, net	1,755	—
Deferred acquisition costs	38,698	39,611
Other assets	8,719	7,804
Intangibles	2,544	2,544
Total assets	\$ 402,286	\$ 405,187
LIABILITIES AND SHAREHOLDERS' EQUITY		
Insurance reserves and policyholder funds		
Future policy benefits	\$ 87,348	\$ 90,872
Unearned premiums	27,469	27,131
Losses and claims	85,620	79,147
Other policy liabilities	1,360	1,526
Total insurance reserves and policyholder funds	201,797	198,676
Accounts payable and accrued expenses	25,465	26,412
Deferred income taxes, net	—	1,301
Junior subordinated debenture obligations, net	33,738	33,738
Total liabilities	261,000	260,127
Commitments and contingencies (Note 16)		
Shareholders' equity:		
Preferred stock, \$1 par, 4,000,000 shares authorized; Series D preferred, 55,000 shares issued and outstanding; \$5,500 redemption value	55	55
Common stock, \$1 par, 50,000,000 shares authorized; 22,400,894 shares issued; 20,378,576 and 20,415,243 shares outstanding as of 2021 and 2020, respectively	22,401	22,401
Additional paid-in capital	57,441	57,437
Retained earnings	51,264	47,790
Accumulated other comprehensive income	17,688	25,000
Unearned stock grant compensation	(73)	(284)
Treasury stock, at cost, 2,022,318 and 1,985,651 shares as of 2021 and 2020, respectively	(7,490)	(7,339)
Total shareholders' equity	141,286	145,060
Total liabilities and shareholders' equity	\$ 402,286	\$ 405,187

See the accompanying notes to the consolidated financial statements.

ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2021	2020
	(In thousands, except per share data)	
Revenue:		
Insurance premiums, net	\$ 184,216	\$ 183,539
Net investment income	8,528	7,744
Realized investment gains, net	4,903	7,420
Unrealized gains (losses) on equity securities, net	1,894	(3,431)
Other income	13	76
Total revenue	<u>199,554</u>	<u>195,348</u>
Benefits and expenses:		
Insurance benefits and losses incurred	131,694	119,876
Commissions and underwriting expenses	47,496	46,811
Interest expense	1,387	1,610
Other expense	13,675	11,548
Total benefits and expenses	<u>194,252</u>	<u>179,845</u>
Income before income taxes	5,302	15,503
Income tax expense	1,021	3,334
Net Income	<u>4,281</u>	<u>12,169</u>
Preferred stock dividends	(399)	(399)
Net Income applicable to common shareholders	<u>\$ 3,882</u>	<u>\$ 11,770</u>
Earnings per common share (basic)	<u>0.19</u>	<u>0.58</u>
Earnings per common share (diluted)	<u>\$ 0.19</u>	<u>\$ 0.56</u>

See the accompanying notes to the consolidated financial statements.

ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,	
	2021	2020
	(In thousands)	
Net income	\$ 4,281	\$ 12,169
Other comprehensive income:		
<u>Available-for-sale fixed maturity securities:</u>		
Gross unrealized holding gain (loss) arising in the period	(8,686)	18,791
Related income tax effect	1,824	(3,946)
Subtotal	(6,862)	14,845
Less: reclassification adjustment for net realized gains included in net income	(570)	(385)
Related income tax effect	120	81
Subtotal	(450)	(304)
Total other comprehensive income (loss), net of tax	(7,312)	14,541
Total comprehensive income (loss)	\$ (3,031)	\$ 26,710

See the accompanying notes to the consolidated financial statements.

ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Year Ended December 31,	
	2021	2020
(In thousands, except share and per share data)		
Preferred stock:		
Balance, beginning of year	\$ 55	\$ 55
Balance, end of year	55	55
Common stock:		
Balance, beginning of year	22,401	22,401
Balance, end of year	22,401	22,401
Additional paid-in capital:		
Balance, beginning of year	57,437	57,820
Restricted stock grants, net of forfeitures	—	(376)
Issuance of shares under stock plans	4	(7)
Balance, end of year	57,441	57,437
Retained earnings:		
Balance, beginning of year	47,790	36,020
Net income	4,281	12,169
Dividends on common stock	(408)	—
Dividends accrued on preferred stock	(399)	(399)
Balance, end of year	51,264	47,790
Accumulated other comprehensive income:		
Balance, beginning of year	25,000	10,459
Other comprehensive income (loss), net of tax	(7,312)	14,541
Balance, end of year	17,688	25,000
Unearned stock grant compensation:		
Balance, beginning of year	(284)	(781)
Restricted stock grants, net of forfeitures	—	60
Amortization of unearned compensation	211	437
Balance, end of year	(73)	(284)
Treasury stock:		
Balance, beginning of year	(7,339)	(7,580)
Restricted stock grants, net of forfeitures	—	316
Net shares acquired related to employee share-based compensation plans	(153)	(91)
Issuance of shares under stock plans	2	16
Balance, end of year	(7,490)	(7,339)
Total shareholders' equity	\$ 141,286	\$ 145,060
Dividends declared on common stock per share	\$ 0.02	\$ —
Common shares outstanding:		
Balance, beginning of year	20,415,243	20,472,162
Net shares acquired under employee share-based compensation plans	(38,147)	(46,620)
Issuance of shares under stock plans	1,480	4,701
Restricted stock grants, net of forfeitures	—	(15,000)
Balance, end of year	20,378,576	20,415,243

See the accompanying notes to the consolidated financial statements.

ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2021	2020
	(In thousands)	
Cash flows from operating activities:		
Net Income	\$ 4,281	\$ 12,169
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred acquisition costs	24,064	19,393
Acquisition costs deferred	(23,151)	(20,143)
Realized investment gains, net	(4,903)	(7,420)
Unrealized (gains) losses on equity securities, net	(1,894)	3,431
Distributions received from equity method investees	290	—
Compensation expense related to share awards	211	437
Depreciation and amortization	1,003	980
Deferred income tax benefit	(1,112)	(2,250)
Decrease in receivables, net	1,545	1,349
Increase (decrease) in insurance reserves and policyholder funds	3,121	(3,230)
(Decrease) increase in accounts payable and accrued expenses	(947)	2,324
Other, net	(1,420)	1,931
Net cash provided by operating activities	<u>1,088</u>	<u>8,971</u>
Cash flows from investing activities:		
Proceeds from investments sold	29,184	18,541
Proceeds from investments matured, called or redeemed	11,515	7,117
Investments purchased	(35,292)	(27,489)
Additions to property and equipment	(107)	(233)
Net cash provided by (used in) investing activities	<u>5,300</u>	<u>(2,064)</u>
Cash flows from financing activities:		
Payment of dividends on Series D preferred stock	(399)	(399)
Payment of dividends on common stock	(408)	—
Proceeds from shares issued under stock plans	6	9
Treasury stock acquired — net employee share-based compensation	(153)	(91)
Net cash used in financing activities	<u>(954)</u>	<u>(481)</u>
Net increase in cash	5,434	6,426
Cash and cash equivalents at beginning of year	19,319	12,893
Cash and cash equivalents at end of year	<u>\$ 24,753</u>	<u>\$ 19,319</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 1,389	\$ 1,665
Cash paid for income taxes	\$ 3,202	\$ 3,883
Non-cash investing activities:		
Receivable from sale of other invested assets	\$ —	\$ 12,678

See the accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) which, for insurance companies, differ in some respects from the statutory accounting practices prescribed or permitted by regulatory authorities. These financial statements include the accounts of Atlantic American Corporation (“Atlantic American” or the “Parent”) and its subsidiaries (collectively with the Parent, the “Company”). All significant intercompany accounts and transactions have been eliminated in consolidation. Operating results achieved in any historical period are not necessarily indicative of results to be expected in any future period.

At December 31, 2021, the Parent owned four insurance subsidiaries, Bankers Fidelity Life Insurance Company and its wholly-owned subsidiary, Bankers Fidelity Assurance Company (together known as “Bankers Fidelity”), and American Southern Insurance Company and its wholly-owned subsidiary, American Safety Insurance Company (together known as “American Southern”), in addition to one non-insurance subsidiary, xCalibre Risk Services, Inc. The Parent has issued a guarantee of all liabilities of Bankers Fidelity.

Premium Revenue and Cost Recognition

Life insurance premiums are recognized as revenue when due; accident and health insurance premiums are recognized as revenue over the premium paying period and property and casualty insurance premiums are recognized as revenue over the period of the contract in proportion to the amount of insurance protection provided. Losses, benefits and expenses are accrued as incurred and are associated with premiums as they are earned so as to result in recognition of profits over the lives of the contracts. For traditional life insurance and long-duration health insurance, this association is accomplished by the provision of a future policy benefits reserve and the deferral and subsequent amortization of the costs of acquiring business, which are referred to as “deferred policy acquisition costs” (principally commissions, premium taxes, and other incremental direct costs of issuing policies). Deferred policy acquisition costs (“DAC”) are amortized over the estimated premium-paying period of the related policies using assumptions consistent with those used in computing the future policy benefits reserve. The Company provides for insurance benefits and losses on accident, health, and property-casualty claims based upon estimates of projected ultimate losses. DAC for property and casualty insurance and short-duration health insurance is amortized over the effective period of the related insurance policies. Contingent commissions, if contractually applicable, are ultimately payable to agents based on the underlying profitability of a particular insurance contract or a group of insurance contracts, and are periodically evaluated and accrued as earned. In periods in which revisions are made to the estimated loss reserves related to the particular insurance contract or group of insurance contracts subject to such commissions, corresponding adjustments are also made to the related accruals. DAC is expensed when such costs are deemed not to be recoverable from future premiums (for traditional life and long-duration health insurance) and from the related unearned premiums and investment income (for property and casualty and short-duration health insurance).

Intangibles

Intangibles consist of goodwill and other indefinite-lived intangible assets. Goodwill represents the excess of cost over the fair value of net assets acquired and is not amortized. Other indefinite-lived intangibles represent the value of licenses and are not amortized. The Company periodically reviews its goodwill and other indefinite-lived intangibles to determine if any adverse conditions exist that could indicate impairment. Conditions that could trigger impairment include, but are not limited to, a significant change in business climate that could affect the value of the related asset, an adverse action, or an assessment by a regulator. No impairment of the Company’s recorded intangibles was identified during any of the periods presented.

Investments

The Company’s investments in fixed maturities, which include bonds and redeemable preferred stocks, are classified as “available-for-sale” and, accordingly, are carried at fair value with the after-tax difference from amortized cost, as adjusted if applicable, reflected in shareholders’ equity as a component of accumulated other comprehensive income or loss. The Company’s equity securities, which include common and non-redeemable preferred stocks, are carried at fair value with changes in fair value reported in net income. The fair values of fixed maturities and equity securities are largely determined from publicly quoted market prices, when available, or independent broker quotations. As of December 31, 2021, the Company owned a certain equity security in the amount of \$157, with a valuation that was derived from techniques in which one or more of the significant inputs are unobservable. As of December 31, 2021, the Company owned a certain fixed maturity in the amount of \$250, with a valuation that was derived from techniques in which one or more of the significant inputs are unobservable. Values that are not determined using quoted market prices inherently involve a greater degree of judgment and uncertainty and therefore ultimately greater price volatility than the value of securities with publicly quoted market prices. Policy loans are carried at unpaid principal balance and real estate is carried at historical cost. Other invested assets are comprised of investments in limited partnerships and limited liability companies and are accounted for using the equity method. If the value of a fixed maturity security or other invested asset declines below its cost or amortized cost, as applicable, and the decline is considered to be other than temporary, a realized loss is recorded to reduce the carrying value of the investment to its estimated fair value, which becomes the new cost basis.

Premiums and discounts related to investments are amortized or accreted over the life of the related investment as an adjustment to yield using the effective interest method. Dividends and interest income are recognized when earned or declared. The cost of securities sold is based on specific identification. Unrealized gains (losses) in the value of fixed maturities are accounted for as a direct increase (decrease) in accumulated other comprehensive income in shareholders' equity, net of deferred tax and, accordingly, have no effect on net income.

Income Taxes

Deferred income taxes represent the expected future tax consequences when the reported amounts of assets and liabilities are recovered or paid. They arise from differences between the financial reporting and tax basis of assets and liabilities and are adjusted for changes in tax laws and tax rates as those changes are enacted. The provision for income taxes represents the total amount of income taxes due related to the current year, plus the change in deferred income taxes during the year. A valuation allowance is recognized if, based on management's assessment of the relevant facts, it is more likely than not that some portion of a deferred tax asset will not be realized.

Earnings Per Common Share

Basic earnings per common share are based on the weighted average number of common and participating shares outstanding during the relevant period. Diluted earnings per common share are based on the weighted average number of common and participating shares outstanding during the relevant period, plus options outstanding, if applicable, using the treasury stock method and the assumed conversion of the Series D preferred stock, if dilutive. Unless otherwise indicated, earnings per common share amounts are presented on a diluted basis.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and investments in short-term, highly liquid securities with original maturities of three months or less from date of purchase.

Reinsurance

The Company enters into reinsurance agreements with other companies in the normal course of business. For each reinsurance agreement, the Company determines if the agreement provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. Reinsurance premiums and benefits paid or provided are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums, benefits and DAC are reported net of insurance ceded. Reinsurance premiums from assumed business are estimated based on information received from ceding companies and reinsureds. Any subsequent differences that arise regarding such estimates are recorded in the period in which they are determined.

Share-Based Transactions

For employee and director share-based compensation awards, the Company determines a grant date fair value based on the price of our publicly-traded common stock and recognize the related compensation expense, adjusted for actual forfeitures, in the consolidated statement of operations on a straight-line basis over the requisite service period for the entire award. For non-employee share-based compensation awards, the Company recognizes the impact during the period of performance, and the fair value of the award is measured as of the date performance is complete, which is the vesting date.

Treasury Stock

Treasury stock is reflected as a reduction of shareholders' equity at cost. The Company uses the first-in-first-out ("FIFO") purchase cost to determine the cost of treasury stock that is reissued. The Company includes any gains and losses in additional paid-in capital when treasury stock is reissued.

Recently Issued Accounting Standards

Adoption of New Accounting Standards

Income Taxes – Simplifying the Accounting for Income Taxes. In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (“ASU 2019-12”). This updated guidance is intended to simplify the accounting for income taxes by removing several exceptions contained in existing guidance and amending other existing guidance to simplify several other income tax accounting matters. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2020, although earlier adoption is permitted. The Company adopted ASU 2019-12 as of January 1, 2021. The adoption of this ASU did not have an impact on the Company’s consolidated financial statements.

Future Adoption of New Accounting Standards

Reference Rate Reform. In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting (“ASU 2020-04”). This guidance provides optional expedients and exceptions for applying GAAP to investments, derivatives, or other transactions that reference the London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued because of reference rate reform. Along with the optional expedients, the amendments include a general principle that permits an entity to consider contract modifications due to reference reform to be an event that does not require contract re-measurement at the modification date or reassessment of a previous accounting determination. Additionally, a company may make a one-time election to sell, transfer, or both sell and transfer debt securities classified as held to maturity that reference a rate affected by reference rate reform and that were classified as held to maturity before January 1, 2020. This standard may be elected over time through December 31, 2022 as reference rate reform activities occur. The Company is currently assessing the effect of adopting this guidance on its financial condition and results of operations.

Accounting for Long-Duration Contracts. In August 2018, the FASB issued ASU No. 2018-12, Financial Services —Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts (“ASU 2018-12”). This guidance (1) improves the timeliness of recognizing changes in the liability for future policy benefits and modifies the rate used to discount future cash flows, (2) simplifies and improves the accounting for certain market-based options or guarantees associated with deposit (or account balance) contracts, (3) simplifies the amortization of deferred acquisition costs, and (4) improves the effectiveness of the required disclosures. ASU 2018-12 is effective for interim and annual reporting periods beginning after December 15, 2024, although earlier adoption is permitted. The Company is currently evaluating the new guidance, but has not yet determined the method or timing for adoption or estimated the impact on the Company’s consolidated financial statements.

Financial Instruments – Credit Losses. In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 requires entities to measure all expected credit losses for financial instruments (including reinsurance recoverable and policy loans) held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Under current GAAP, entities generally recognize credit losses when it is probable that the loss has been incurred. ASU 2016-13 will remove all recognition thresholds and will require entities to recognize an allowance for credit losses equal to the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the entity expects to collect over the instrument’s contractual life. ASU 2016-13 also amends the credit loss measurement guidance for available-for-sale (“AFS”) debt securities and beneficial interests in securitized financial assets. Credit losses on AFS debt securities carried at fair value will continue to be measured as an other than temporary impairment (“OTTI”) when incurred; however, the losses will be recognized through an allowance and no longer as an adjustment to the cost basis. Recoveries of OTTI will be recognized as reversals of valuation allowances and no longer accreted as investment income through an adjustment to the investment yield. The allowance on AFS debt securities cannot cause the net carrying value to be below fair value and, therefore, it is possible that increases in fair value due to decreases in market interest rates could cause the reversal of a valuation allowance and increase net income. The new guidance will also require purchased financial assets with a more-than-insignificant amount of credit deterioration since original issuance to be recorded based on contractual amounts due and an initial allowance recorded at the date of purchase. For the Company, the amendments in ASU 2016-13 will be effective for interim and annual reporting periods beginning after December 15, 2022. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company will adopt on January 1, 2023. Implementation matters yet to be addressed include determining the impact of valuation allowances on the effective interest method for recognizing interest income from AFS debt securities as well as updating our investment accounting system functionality to adjust valuation allowances based on changes in fair value. The estimated effect on the Company’s consolidated financial statements can only be estimated based on the current investment portfolio at any given point in time, and accordingly, has not currently been determined.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Significant estimates and assumptions are used in developing and evaluating deferred income taxes, deferred acquisition costs, insurance reserves, investments, and receivables, among others, and actual results could differ materially from management’s estimates.

Note 2. Investments

The following tables set forth the estimated fair value, gross unrealized gains, gross unrealized losses and cost or amortized cost of the Company's investments in fixed maturities and equity securities, aggregated by type and industry, as of December 31, 2021 and December 31, 2020.

Fixed maturities were comprised of the following:

2021				
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Fixed maturities:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 50,298	\$ 763	\$ 416	\$ 49,951
Obligations of states and political subdivisions	11,644	749	—	10,895
Corporate securities:				
Utilities and telecom	29,717	2,961	44	26,800
Financial services	70,921	6,759	48	64,210
Other business – diversified	40,216	4,631	106	35,691
Other consumer – diversified	57,940	7,185	103	50,858
Total corporate securities	198,794	21,536	301	177,559
Redeemable preferred stocks:				
Other consumer – diversified	250	58	—	192
Total redeemable preferred stocks	250	58	—	192
Total fixed maturities	\$ 260,986	\$ 23,106	\$ 717	\$ 238,597
2020				
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Fixed maturities:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 30,762	\$ 1,381	\$ 26	\$ 29,407
Obligations of states and political subdivisions	11,802	898	—	10,904
Corporate securities:				
Utilities and telecom	30,359	4,423	—	25,936
Financial services	78,258	9,811	6	68,453
Other business – diversified	41,145	5,689	15	35,471
Other consumer – diversified	61,530	9,479	47	52,098
Total corporate securities	211,292	29,402	68	181,958
Redeemable preferred stocks:				
Other consumer – diversified	250	58	—	192
Total redeemable preferred stocks	250	58	—	192
Total fixed maturities	\$ 254,106	\$ 31,739	\$ 94	\$ 222,461

Bonds having an amortized cost of \$11,169 and \$10,670 and included in the tables above were on deposit with insurance regulatory authorities at December 31, 2021 and 2020, respectively, in accordance with statutory requirements. Additionally, bonds having an amortized cost of \$5,371 and \$1,997 and included in the tables above were pledged as collateral to FHLB at December 31, 2021 and 2020, respectively.

2021				
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost or Amortized Cost
Equity securities:				
Common and non-redeemable preferred stocks:				
Financial services	799	525	—	274
Other business – diversified	18,325	13,692	—	4,633
Total equity securities	<u>\$ 19,124</u>	<u>\$ 14,217</u>	<u>\$ —</u>	<u>\$ 4,907</u>
2020				
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost or Amortized Cost
Equity securities:				
Common and non-redeemable preferred stocks:				
Financial services	2,111	351	—	1,760
Other business – diversified	16,605	11,972	—	4,633
Total equity securities	<u>\$ 18,716</u>	<u>\$ 12,323</u>	<u>\$ —</u>	<u>\$ 6,393</u>

The carrying value and amortized cost of the Company's investments in fixed maturities at December 31, 2021 and 2020 by contractual maturity were as follows. Actual maturities may differ from contractual maturities because issuers may call or prepay obligations with or without call or prepayment penalties.

		2021		2020	
		Carrying Value	Amortized Cost	Carrying Value	Amortized Cost
Due in one year or less		\$ 1,734	\$ 1,730	\$ 2,041	\$ 2,015
Due after one year through five years		24,926	23,593	18,373	17,039
Due after five years through ten years		73,725	68,338	89,892	79,993
Due after ten years		122,045	106,181	124,609	104,527
Asset backed securities		38,556	38,755	19,191	18,887
Totals		<u>\$ 260,986</u>	<u>\$ 238,597</u>	<u>\$ 254,106</u>	<u>\$ 222,461</u>

The following tables present the Company's unrealized loss aging for securities by type and length of time the security was in a continuous unrealized loss position as of December 31, 2021 and 2020.

2021						
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 30,141	\$ 416	\$ —	\$ —	\$ 30,141	\$ 416
Corporate securities	3,326	49	4,761	252	8,087	301
Total temporarily impaired securities	<u>\$ 33,467</u>	<u>\$ 465</u>	<u>\$ 4,761</u>	<u>\$ 252</u>	<u>\$ 38,228</u>	<u>\$ 717</u>
2020						
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 7,045	\$ 26	\$ —	\$ —	\$ 7,045	\$ 26
Corporate securities	4,602	68	—	—	4,602	68
Total temporarily impaired securities	<u>\$ 11,647</u>	<u>\$ 94</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 11,647</u>	<u>\$ 94</u>

The evaluation for an other than temporary impairment ("OTTI") is a quantitative and qualitative process, which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. Potential risks and uncertainties include, among other things, changes in general economic conditions, an issuer's financial condition or near term recovery prospects and the effects of changes in interest rates. In evaluating a potential impairment, the Company considers, among other factors, management's intent and ability to hold the securities until price recovery, the nature of the investment and the expectation of prospects for the issuer and its industry, the status of an issuer's continued satisfaction of its obligations in accordance with their contractual terms, and management's expectation as to the issuer's ability and intent to continue to do so, as well as ratings actions that may affect the issuer's credit status.

There were no OTTI charges recorded during the years ended December 31, 2021 and 2020.

As of December 31, 2021 and 2020, there were sixty-one and twenty securities, respectively, in an unrealized loss position which primarily included certain of the Company's investments in fixed maturities within the financial services, other diversified business and other diversified consumer sectors. The increase in the number and value of securities in an unrealized loss position during the year ended December 31, 2021, was primarily attributable to a decline in market values in certain of the Company's fixed maturity securities as a result of a rising interest rate environment. The Company does not currently intend to sell nor does it expect to be required to sell any of the securities in an unrealized loss position. Based upon the Company's expected continuation of receipt of contractually required principal and interest payments and its intent and ability to retain the securities until price recovery, as well as the Company's evaluation of other relevant factors, including those described above, the Company has deemed these securities to be temporarily impaired as of December 31, 2021.

Investment income was earned from the following sources:

	2021	2020
Fixed maturities	\$ 8,640	\$ 8,646
Equity securities	300	141
Other	(111)	(788)
	8,829	7,999
Investment expenses	301	255
Net investment income	\$ 8,528	\$ 7,744

A summary of realized investment gains (losses) follows:

	2021			
	Fixed Maturities	Equity Securities	Other Invested Assets	Total
Gains	\$ 570	\$ —	\$ 4,333	\$ 4,903
Losses	—	—	—	—
Realized investment gains, net	\$ 570	\$ —	\$ 4,333	\$ 4,903

	2020			
	Fixed Maturities	Equity Securities	Other Invested Assets	Total
Gains	\$ 835	\$ 88	\$ 6,948	\$ 7,871
Losses	(450)	(1)	—	(451)
Realized investment gains, net	\$ 385	\$ 87	\$ 6,948	\$ 7,420

Proceeds from the sales of available-for-sale fixed maturities were as follows:

	2021	2020
Sales proceeds	\$ 9,244	\$ 18,504
Gross gains	454	835
Gross losses	—	(450)

Proceeds from the sales of equity securities were as follows:

	2021	2020
Sales proceeds	\$ 61	\$ 5
Gross gains	—	—
Gross losses	—	(1)

Proceeds from the sales of other invested assets were as follows:

	2021	2020
Sales proceeds	\$ 19,761	\$ —
Gross gains	4,333	6,948
Gross losses	—	—

Sales of available-for-sale securities in 2021 and 2020 were primarily a result of improving the overall risk versus return profile of the portfolio. In addition, the Company sold its interest in a certain limited liability company held as other invested assets to a third-party. The transaction closed prior to December 31, 2020. The Company recorded gross realized gains on this sale of \$6.9 million and proceeds of \$12.7 million which settled after year end.

The following table presents the portion of unrealized gains (losses) related to equity securities still held for the years ended December 31, 2021 and 2020.

	2021	2020
Net realized and unrealized gains (losses) recognized during the period on equity securities	\$ 1,894	\$ (3,344)
Less: Net realized gains recognized during the period on equity securities sold during the period	—	87
Unrealized gains (losses) on equity securities, net	<u>\$ 1,894</u>	<u>\$ (3,431)</u>

The Company's bond portfolio included 99% investment grade securities, as defined by the NAIC, at December 31, 2021.

Variable Interest Entities

The Company holds passive interests in a number of entities that are considered to be variable interest entities ("VIEs") under GAAP guidance. The Company's VIE interests principally consist of interests in limited partnerships and limited liability companies formed for the purpose of achieving diversified equity returns. The Company's VIE interests, carried as a part of other invested assets, totaled \$198 and \$3,238 at December 31, 2021 and 2020, respectively. The Company's VIE interests, carried as a part of investment in unconsolidated subsidiaries, totaled \$1,238 at December 31, 2021 and 2020.

The Company does not have power over the activities that most significantly impact the economic performance of these VIEs and thus is not the primary beneficiary. Therefore, the Company has not consolidated these VIEs. The Company's involvement with each VIE is limited to its direct ownership interest in the VIE. The Company has no arrangements with any of the VIEs to provide other financial support to or on behalf of the VIE. The Company's maximum loss exposure relative to these investments was limited to the carrying value of the Company's investment in the VIEs, which amount to \$1,436 and \$4,476, at December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, the Company had outstanding commitments totaling \$1,997, whereby the Company is committed to fund these investments and may be called by such VIEs during the commitment period to fund the purchase of new investments and partnership expenses.

Note 3. Disclosures About Fair Value of Financial Instruments

The estimated fair values have been determined by the Company using available market information from various market sources and appropriate valuation methodologies as of the respective dates. However, considerable judgment is necessary to interpret market data and to develop the estimates of fair value. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, the estimates presented herein are not necessarily indicative of the amounts which the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following describes the fair value hierarchy and provides information as to the extent to which the Company uses fair value to measure the value of its financial instruments and information about the inputs used to value those financial instruments. The fair value hierarchy prioritizes the inputs in the valuation techniques used to measure fair value into three broad levels.

- Level 1 Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. The Company's financial instruments valued using Level 1 criteria include cash equivalents and exchange traded common stocks.
- Level 2 Observable inputs, other than quoted prices included in Level 1, for an asset or liability or prices for similar assets or liabilities. The Company's financial instruments valued using Level 2 criteria include significantly most of its fixed maturities, which consist of U.S. Treasury securities, U.S. Government securities, obligations of states and political subdivisions, and certain corporate fixed maturities, as well as its non-redeemable preferred stocks. In determining fair value measurements of its fixed maturities and non-redeemable preferred stocks using Level 2 criteria, the Company utilizes data from outside sources, including nationally recognized pricing services and broker/dealers. Prices for the majority of the Company's Level 2 fixed maturities and non-redeemable preferred stocks were determined using unadjusted prices received from pricing services that utilize models where the significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities) or can be corroborated by observable market data.

Level 3	Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). Fair value is based on criteria that use assumptions or other data that are not readily observable from objective sources. With little or no observable market, the determination of fair values uses considerable judgment and represents the Company's best estimate of an amount that could be realized in a market exchange for the asset or liability. The Company's financial instruments valued using Level 3 criteria consist of one fixed maturity security and one equity security. As of December 31, 2021 and December 31, 2020, the value of the fixed maturity valued using Level 3 criteria was \$250 and \$0, respectively. As of December 31, 2021 and December 31, 2020, the value of the equity security valued using Level 3 criteria was \$157 and \$143, respectively. The equity security is not traded and valued at cost. The use of different criteria or assumptions regarding data may have yielded materially different valuations.

Recurring Fair Value Measurements

Cash Equivalents. The carrying amount approximates fair value due to the short-term nature of the instruments.

Fixed Maturities and Common and Non-Redeemable Preferred Stocks. The carrying amount is determined from publicly quoted market prices. Certain fixed maturities do not have publicly quoted values and consist solely of issuances of pooled debt obligations of multiple, smaller financial services companies. They are not actively traded and valuation techniques used to measure fair value are based on future estimated cash flows discounted at reasonable estimated rates of interest. Other qualitative and quantitative information is also considered, as applicable.

Nonrecurring Fair Value Measurements

Non-publicly Traded Invested Assets. The fair value of investments in certain limited partnerships which are included in other invested assets on the consolidated balance sheet were determined by officers of those limited partnerships.

Policy Loans. Policy loans, which are categorized as Level 2 fair value measurements, are carried at the unpaid principal balances.

Junior Subordinated Debentures. The fair value is estimated based on observable interest rates and yields for debt instruments having similar characteristics.

As of December 31, 2021, financial instruments carried at fair value were measured on a recurring basis as summarized below:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Fixed maturities	\$ 250	\$ 260,486	\$ 250	\$ 260,986
Equity securities	18,967	—	157	19,124
Cash equivalents	12,713	—	—	12,713
Total	<u>\$ 31,930</u>	<u>\$ 260,486</u>	<u>\$ 407</u>	<u>\$ 292,823</u>

As of December 31, 2020, financial instruments carried at fair value were measured on a recurring basis as summarized below:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Fixed maturities	\$ —	\$ 254,106	\$ —	\$ 254,106
Equity securities	18,573	—	143	18,716
Cash equivalents	12,010	—	—	12,010
Total	<u>\$ 30,583</u>	<u>\$ 254,106</u>	<u>\$ 143</u>	<u>\$ 284,832</u>

The following table sets forth the carrying amount, estimated fair value and level within the fair value hierarchy of the Company's financial instruments as of December 31, 2021 and 2020.

	Level in Fair Value Hierarchy ⁽¹⁾	2021		2020	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:					
Cash and cash equivalents	Level 1	\$ 24,753	\$ 24,753	\$ 19,319	\$ 19,319
Fixed maturities	⁽¹⁾	260,986	260,986	254,106	254,106
Equity securities	⁽¹⁾	19,124	19,124	18,716	18,716
Other invested assets	Level 3	198	198	3,238	3,238
Policy loans	Level 2	1,858	1,858	1,975	1,975
Investments in unconsolidated trusts	Level 2	1,238	1,238	1,238	1,238
Liabilities:					
Junior Subordinated Debentures, net	Level 2	33,738	33,728	33,738	32,297

(1) See the aforementioned information for a description of the fair value hierarchy as well as a disclosure of levels for classes of these financial assets.

Note 4. Deferred Policy Acquisition Costs

The following table presents a rollforward of deferred policy acquisition costs by segment for the years ended December 31.

	2021		2020	
	American Southern	Bankers Fidelity	American Southern	Bankers Fidelity
Deferred policy acquisition costs:				
Balance, beginning of year	\$ 2,299	\$ 37,312	\$ 1,979	\$ 36,882
Capitalization	10,690	12,461	9,910	10,233
Amortization	(10,599)	(13,465)	(9,590)	(9,803)
Balance, end of year	<u>\$ 2,390</u>	<u>\$ 36,308</u>	<u>\$ 2,299</u>	<u>\$ 37,312</u>

Note 5. Insurance Reserves and Policyholder Funds

The following table presents the Company's reserves for life, accident and health, and property and casualty losses, claims and loss adjustment expenses at December 31, 2021 and 2020.

	2021	2020	Amount of Insurance In Force, Net	
			2021	2020
Future policy benefits				
Life insurance policies:				
Ordinary life and annuities	\$ 51,947	\$ 54,442	\$ 194,210	\$ 199,827
Group life	1,094	91	212,783	83,533
	53,041	54,533	\$ 406,993	\$ 283,360
Accident and health insurance policies	34,307	36,339		
	87,348	90,872		
Unearned premiums	27,469	27,131		
Losses, claims and loss adjustment expenses	85,620	79,147		
Other policy liabilities	1,360	1,526		
Total insurance reserves and policyholder funds	\$ 201,797	\$ 198,676		

Annualized premiums for accident and health insurance policies were \$101,315 and \$109,430 at December 31, 2021 and 2020, respectively.

Future Policy Benefits

Liabilities for life insurance future policy benefits are based upon assumed future investment yields, mortality rates, and lapse rates after giving effect to possible risks of unexpected claim experience. The assumed mortality and lapse rates are based upon the Company's experience modified as necessary to reflect anticipated trends and are generally established at contract inception. The interest rates assumed for life, accident and health future policy benefits are generally: (i) 2.5% to 5.5% for issues prior to 1977, (ii) 5.5% to 7.0% for 1977 through 1979 issues, (iii) 9.0% for 1980 through 1987 issues, (iv) 5.0% to 7.0% for 1988 through 2009 issues, (v) 4.0% for 2010 through 2012 issues, (vi) 3.5% to 4.0% for 2013 through 2020 issues, and (vii) 3.0% for 2021 issues.

Loss and Claim Reserves

Loss and claim reserves represent estimates of projected ultimate losses and are based upon: (a) management's estimate of ultimate liability and claims adjusters' evaluations for unpaid claims reported prior to the close of the accounting period, (b) estimates of incurred but not reported ("IBNR") claims based on past experience, and (c) estimates of loss adjustment expenses. The estimated liability is periodically reviewed by management and updated, with changes to the estimated liability recorded in the statement of operations in the year in which such changes are known.

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

	2021	2020
Balance at January 1	\$ 79,147	\$ 81,448
Less: Reinsurance recoverable on unpaid losses	(17,600)	(18,339)
Net balance at January 1	61,547	63,109
Incurred related to:		
Current year	134,284	122,626
Prior years	(3,415) ⁽¹⁾	(3,480) ⁽²⁾
Total incurred	130,869	119,146
Paid related to:		
Current year	89,838	84,518
Prior years	34,648	36,190
Total paid	124,486	120,708
Net balance at December 31	67,930	61,547
Plus: Reinsurance recoverable on unpaid losses	17,690	17,600
Balance at December 31	\$ 85,620	\$ 79,147

(1) Prior years' development was primarily the result of better than expected development on prior years loss and claim reserves for certain lines of business in American Southern, somewhat offset by unfavorable development on prior years' loss and claim reserves for the Medicare Supplement line of business in Bankers Fidelity.

(2) Prior years' development was primarily the result of favorable development in the loss and claim reserves for the Medicare supplement line of business in Bankers Fidelity. Rate increases on existing business and the resultant improvement in rate adequacy was more favorable than expected. Additionally, the Company experienced favorable development in the surety line of business in American Southern due to a reduction in exposure coupled with recoveries on certain prior year losses.

Following is a reconciliation of total incurred losses to total insurance benefits and losses incurred:

	2021	2020
Total incurred losses	\$ 130,869	\$ 119,146
Cash surrender value and matured endowments	2,179	1,198
Benefit reserve changes	(1,354)	(468)
Total insurance benefits and losses incurred	<u>\$ 131,694</u>	<u>\$ 119,876</u>

Liability for Unpaid Losses, Claims and Loss Adjustment Expenses

The following is information, by significant product lines, about incurred and paid claims development as of December 31, 2021, net of reinsurance, as well as the cumulative number of reported claims and the total of IBNR reserves plus expected development on reported claims included within the net incurred claims amounts. The information presented for the years ended December 31, 2015 and prior is presented as supplementary information and is unaudited.

Medicare Supplement

Accident Year	For the Years Ended December 31,										As of December 31,	
	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance										IBNR Reserves	Cumulative Number of Reported Claims
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
2012	\$ 50,021	\$ 50,996	\$ 51,021	\$ 50,998	\$ 50,989	\$ 50,987	\$ 50,985	\$ 50,984	\$ 50,984	\$ 50,984	\$ —	867,053
2013		56,974	56,970	57,034	57,023	57,021	57,016	57,015	57,014	57,014	—	957,374
2014			57,179	56,938	56,981	56,981	56,976	56,977	56,976	56,976	—	939,488
2015				55,482	54,939	54,993	54,990	54,984	54,985	54,985	—	898,393
2016					58,849	59,851	63,226	63,225	63,221	63,221	—	1,036,917
2017						67,960	69,655	69,643	69,635	69,633	—	1,512,362
2018							79,140	80,404	80,361	80,357	2	2,051,656
2019								88,765	87,028	86,988	10	2,244,326
2020									75,857	75,715	188	1,848,987
2021										65,267	15,070	1,560,365
										<u>\$ 661,140</u>		

Accident Year	Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2012	\$ 42,267	\$ 50,996	\$ 51,021	\$ 50,998	\$ 50,989	\$ 50,987	\$ 50,985	\$ 50,984	\$ 50,984	\$ 50,984
2013		47,770	56,970	57,034	57,023	57,021	57,016	57,015	57,014	57,015
2014			48,024	56,938	56,981	56,981	56,976	56,977	56,976	56,976
2015				45,430	54,876	54,993	54,990	54,984	54,985	54,985
2016					49,165	59,747	63,226	63,225	63,221	63,221
2017						57,696	69,517	69,643	69,635	69,633
2018							66,565	80,222	80,361	80,355
2019								72,333	86,856	86,978
2020									63,129	75,527
2021										50,197
										\$ 645,871
										\$ 15,269

Liabilities for losses, claims and loss adjustment expenses, net of reinsurance

The cumulative number of reported claims for the Medicare supplement line of business is the number of distinct claims incurred and submitted to Medicare for payment in the given year. Multiple payments on the same claim are not counted in the frequency information. Estimated ultimate claims incurred, using claims data reported during each month of any given year, are calculated using the chain ladder method modified to use seasonality and trend-adjusted expected claims for the most recent four-month period prior to the statement date. Additional adjustments to the estimated ultimate claims incurred are then applied to account for seasonal changes in claim experience and in the rate of claim processing. The IBNR liability is calculated as estimated ultimate claims less paid claims and claims in course of settlement. Thirty-six months of loss data are used to develop the estimated ultimate incurred claims. Similar approaches are used for other less significant health products, subject to modifications to account for unique aspects of the products.

Automobile Liability

For the Years Ended December 31,											As of December 31, 2021	
Accident Year	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance										IBNR Reserves	Cumulative Number of Reported Claims
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
2012	\$ 12,980	\$ 15,007	\$ 14,108	\$ 13,707	\$ 13,313	\$ 13,343	\$ 13,357	\$ 13,373	\$ 13,373	\$ 13,366	\$ —	2,349
2013		18,664	20,702	21,096	21,823	21,352	21,020	20,972	20,972	20,970	—	3,270
2014			20,812	21,881	22,041	22,353	21,682	22,080	22,100	22,125	56	3,545
2015				18,521	19,857	20,017	20,007	20,086	20,680	20,849	21	3,530
2016					20,549	21,275	21,846	22,388	22,245	22,310	84	3,852
2017						22,179	24,212	23,766	25,180	26,009	164	3,793
2018							24,284	25,682	27,338	30,013	1,784	3,629
2019								25,241	24,045	25,724	2,113	3,573
2020									22,416	16,442	2,167	2,438
2021										25,887	13,147	2,422
										<u>\$ 223,695</u>		

Accident Year	Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
2012	\$ 4,627	\$ 8,791	\$ 11,507	\$ 12,932	\$ 13,197	\$ 13,211	\$ 13,288	\$ 13,373	\$ 13,373	\$ 13,365	
2013		5,144	12,193	16,782	19,407	20,382	20,982	20,972	20,972	20,970	
2014			6,822	13,807	17,554	20,177	20,878	21,735	21,813	21,786	
2015				6,226	11,878	14,938	17,612	19,557	20,234	20,726	
2016					6,796	13,141	16,397	19,613	21,408	21,809	
2017						7,401	16,317	20,221	22,778	25,023	
2018							6,989	15,647	21,121	24,662	
2019								7,305	14,694	19,384	
2020									5,172	9,941	
2021										6,242	
										<u>\$ 183,908</u>	
										<u>\$ 39,787</u>	

Automobile Physical Damage

Accident Year	For the Years Ended December 31,					As of December 31, 2021	
	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance					IBNR Reserves	Cumulative Number of Reported Claims
	2017	2018	2019	2020	2021		
2017	\$ 6,257	\$ 5,933	\$ 5,857	\$ 5,860	\$ 5,860	\$ —	1,324
2018		7,805	7,530	7,447	7,430	—	1,455
2019			8,526	8,026	7,914	1	1,486
2020				10,288	10,080	16	1,629
2021					14,296	227	1,748
					<u>\$ 45,580</u>		

Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance						
Accident Year	2017	2018	2019	2020	2021	
2017	\$ 5,215	\$ 5,914	\$ 5,856	\$ 5,860	\$ 5,860	
2018		6,344	7,510	7,446	7,433	
2019			6,360	8,005	7,906	
2020				8,347	9,952	
2021					11,993	
					<u>\$ 43,144</u>	
All outstanding liabilities before 2017, net of reinsurance						12
Liabilities for losses, claims and loss adjustment expenses, net of reinsurance						<u>\$ 2,448</u>

General Liability

Accident Year	For the Years Ended December 31,										As of December 31, 2021	
	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance										IBNR Reserves	Cumulative Number of Reported Claims
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
2012	\$ 4,055	\$ 1,305	\$ 1,269	\$ 1,270	\$ 1,214	\$ 1,333	\$ 1,344	\$ 1,377	\$ 1,388	\$ 1,349	\$ —	162
2013		3,461	728	926	817	865	820	945	904	868	—	198
2014			3,744	501	557	476	406	497	523	519	4	199
2015				4,421	1,037	1,227	1,044	867	855	855	—	146
2016					3,119	1,148	736	608	621	619	—	93
2017						1,490	488	513	738	738	10	83
2018							1,656	333	198	128	—	75
2019								1,916	707	455	101	85
2020									2,223	670	150	87
2021										2,567	1,746	59
										<u>\$ 8,768</u>		

Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance											
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
2012	\$ 371	\$ 707	\$ 847	\$ 1,034	\$ 1,113	\$ 1,219	\$ 1,260	\$ 1,269	\$ 1,280	\$ 1,349	
2013		104	339	579	811	791	803	805	855	867	
2014			171	299	331	369	373	493	498	502	
2015				98	259	464	664	863	855	855	
2016					116	203	568	608	617	619	
2017						75	136	365	556	696	
2018							65	90	115	128	
2019								41	209	242	
2020									208	385	
2021										364	
										<u>\$ 6,007</u>	
All outstanding liabilities before 2012, net of reinsurance											519
Liabilities for losses, claims and loss adjustment expenses, net of reinsurance											<u>\$ 3,280</u>

Surety

Accident Year	For the Years Ended December 31,										As of December 31, 2021	
	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance										IBNR Reserves	Cumulative Number of Reported Claims
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
2012	\$ 4,979	\$ 4,767	\$ 5,396	\$ 5,345	\$ 4,869	\$ 4,880	\$ 4,892	\$ 4,925	\$ 4,944	\$ 4,993	\$ 1	90
2013		3,060	2,007	2,743	2,947	2,866	2,809	2,765	2,757	2,753	—	60
2014			3,214	3,130	2,990	2,760	2,685	2,617	2,818	2,782	37	54
2015				1,902	1,630	1,400	1,359	1,406	1,310	1,307	5	50
2016					3,314	1,812	1,865	1,876	1,865	1,678	—	47
2017						4,677	3,671	3,799	3,629	3,514	12	63
2018							3,528	1,938	1,381	956	3	63
2019								2,130	657	630	17	30
2020									2,263	574	56	23
2021										2,936	1,948	27
										<u>\$22,123</u>		

Accident Year	Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
2012	\$ 2,257	\$ 4,581	\$ 4,856	\$ 5,331	\$ 4,869	\$ 4,880	\$ 4,878	\$ 4,916	\$ 4,934	\$ 4,985	
2013		323	1,010	1,369	2,763	2,789	2,749	2,765	2,757	2,753	
2014			1,331	2,327	2,727	2,739	2,664	2,593	2,562	2,562	
2015				641	856	1,127	1,125	1,128	1,271	1,273	
2016					1,054	1,732	1,772	1,873	1,862	1,677	
2017						1,971	3,255	3,523	3,545	3,442	
2018							1,157	1,454	1,361	941	
2019								259	395	568	
2020									97	460	
2021										156	
										<u>\$ 18,817</u>	
										All outstanding liabilities before 2012, net of reinsurance	85
										Liabilities for losses, claims and loss adjustment expenses, net of reinsurance	<u>\$ 3,391</u>

For the property and casualty lines of business, the number of claims presented above equals the number of occurrences by type of claim reported to the Company. The number of claims reported during a given year corresponds to the number of claims records opened during the year. Frequency information is maintained on a cumulative basis by accident year by line of business. For automobile claims, a claim count is separately maintained for bodily injury, property damage and physical damage claims. The Company has consistently monitored claim frequency on this basis, and believes this provides more meaningful information than using claimant count which can change over the course of settling a claim.

In general, when a claim is reported, claims representatives establish a “case reserve” for the estimated amount of the ultimate payment based on the known information of the claim at that time. Claims managers review and monitor all property and casualty claims in excess of \$25,000. As new information becomes available or payments are made on a claim, the case reserve is adjusted to reflect the revised estimate of the ultimate amount to be paid out. Estimates and assumptions pertaining to individual claims are based on complex and subjective judgments and subject to change at any time as new information becomes available.

In addition to case reserves, IBNR reserves are established to provide for claims which have not been reported to the Company as of the reporting date as well as potential adverse development on known case reserves. IBNR reserve estimates are derived through a number of analytical techniques. Actuarial data is analyzed by line of business, coverage and accident year. Qualitative factors are also considered in determining IBNR reserves and include such factors as judicial decisions, general economic trends such as inflation, changes in policy forms, and underwriting changes. Reserves are reviewed quarterly and any indicated adjustments are made.

Because of the inherent uncertainties in establishing both case and IBNR reserves, ultimate loss experience may prove better or worse than indicated by the combined claim reserves. Adjustments to claim reserves are reflected in the period recognized and could increase or decrease earnings for the period.

The following is supplementary information about average historical claims duration as of December 31, 2021.

Reserve Line	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)									
	1 st Year	2 nd Year	3 rd Year	4 th Year	5 th Year	6 th Year	7 th Year	8 th Year	9 th Year	10 th Year
Medicare Supplement	82.4%	16.8%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Automobile Liability	28.6%	30.3%	17.5%	12.0%	6.0%	2.4%	0.8%	0.2%	0.0%	-0.1%
Automobile Physical Damage										
General Liability	84.3%	16.1%	-1.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
General Liability	21.8%	22.3%	23.1%	16.3%	8.0%	6.3%	1.1%	2.4%	1.1%	5.1%
Surety	45.7%	35.2%	10.2%	3.3%	-2.4%	-0.8%	-0.1%	0.2%	0.1%	1.0%

The reconciliation of the net incurred and paid claims development tables to the liability for losses, claims and loss adjustment expenses is as follows:

	December 31, 2021
Net outstanding liabilities	
Medicare Supplement	\$ 15,269
Automobile Liability	39,787
Automobile Physical Damage	2,448
General Liability	3,280
Surety	3,391
Other short-duration insurance lines	1,598
Liabilities for unpaid losses, claims and loss adjustment expenses, net of reinsurance	65,773
Reinsurance recoverable on unpaid losses:	
Medicare Supplement	10,753
Automobile Liability	4,506
Automobile Physical Damage	274
General Liability	2,157
Total reinsurance recoverable on unpaid losses	17,690
Unallocated claims adjustment expenses	2,157
Total gross liability for unpaid losses, claims and loss adjustment expenses	\$ 85,620

Note 6. Reinsurance

In accordance with general practice in the insurance industry, portions of the life, property and casualty insurance written by the Company are reinsured; however, the Company remains liable with respect to reinsurance ceded should any reinsurer be unable or unwilling to meet its obligations. Approximately 99.6% of the Company's reinsurance recoverables were due from a single reinsurer as of December 31, 2021. Reinsurance recoverables of \$27,310 were due from General Re Corporation, rated "AA+" by Standard & Poor's and "A++" (Superior) by A.M. Best. Allowances for uncollectible amounts are established against reinsurance recoverables, if appropriate.

The effects of reinsurance on premiums written, premiums earned and insurance benefits and losses incurred were as follows:

	2021	2020
Direct premiums written	\$ 236,682	\$ 239,687
Assumed premiums written	22,111	23,253
Ceded premiums written	(73,521)	(77,622)
Net premiums written	\$ 185,272	\$ 185,318
Direct premiums earned	\$ 235,806	\$ 238,209
Assumed premiums earned	22,076	23,144
Ceded premiums earned	(73,666)	(77,814)
Net premiums earned	\$ 184,216	\$ 183,539
Provision for benefits and losses incurred	\$ 190,591	\$ 175,825
Reinsurance loss recoveries	(58,897)	(55,949)
Insurance benefits and losses incurred	\$ 131,694	\$ 119,876

Components of reinsurance receivables at December 31, 2021 and 2020 were as follows:

	2021	2020
Recoverable on unpaid losses	\$ 17,690	\$ 17,600
Recoverable on unpaid benefits	8,169	9,832
Recoverable on paid losses	499	447
Ceded unearned premiums	819	963
Ceded advanced premiums	239	244
Total reinsurance receivables	<u>\$ 27,416</u>	<u>\$ 29,086</u>

Note 7. Income Taxes

Total income taxes were allocated as follows:

	2021	2020
Total tax expense on income	\$ 1,021	\$ 3,334
Tax expense on components of shareholders' equity:		
Net unrealized gains (losses) on investment securities	(1,944)	3,865
Total tax expense (benefit)	<u>\$ (923)</u>	<u>\$ 7,199</u>

A reconciliation of the differences between income taxes computed at the federal statutory income tax rate and the income tax benefit is as follows:

	2021	2020
Federal income tax provision	\$ 1,112	\$ 3,256
Statutory rate	21%	21%
Dividends-received deduction	(26)	(12)
Meals and entertainment	32	20
Vested stock and club dues	(28)	36
Parking disallowance	16	16
Adjustment for prior years' estimates to actual	(85)	18
Income tax expense	<u>\$ 1,021</u>	<u>\$ 3,334</u>
Effective tax rate	<u>19.3%</u>	<u>21.5%</u>

The primary differences between the effective tax rate and the federal statutory income tax rate for 2021 resulted from the adjustment for prior years' estimates to actual that are generally updated at the completion of the third quarter of each fiscal year and were \$85 in the year ended December 31, 2021. Also contributing to differences between the effective tax rate and the federal statutory income tax rate were permanent differences related to meals and entertainment and vested stock and club dues. Another contributing factor was the dividends-received deduction ("DRD"). The current estimated DRD is adjusted as underlying factors change and can vary from estimates based on, but not limited to, actual distributions from investments as well as the amount of the Company's taxable income.

The primary differences between the effective tax rate and the federal statutory income tax rate for 2020 resulted from permanent differences related to meals and entertainment and vested stock and club dues. Also contributing to differences between the effective tax rate and the federal statutory income tax rate were adjustment for prior years' estimates to actual that are generally updated at the completion of the third quarter of each fiscal year and were \$18 in the year ended December 31, 2020.

Deferred tax assets and liabilities at December 31, 2021 and 2020 were comprised of the following:

	2021	2020
Deferred tax assets:		
Deferred acquisition costs	\$ 7,026	\$ 4,666
Insurance reserves	2,028	2,682
Impaired assets	780	822
Bad debts and other	280	326
Total deferred tax assets	<u>10,114</u>	<u>8,496</u>
Deferred tax liabilities:		
Deferred and uncollected premiums	\$ (561)	\$ (409)
Net unrealized investment gains	(7,689)	(9,235)
Other	(109)	(153)
Total deferred tax liabilities	<u>(8,359)</u>	<u>(9,797)</u>
Net deferred tax asset (liability)	<u>\$ 1,755</u>	<u>\$ (1,301)</u>

The components of income tax expense were:

	2021	2020
Current – Federal	\$ 2,133	\$ 5,584
Deferred – Federal	(1,112)	(2,250)
Total	<u>\$ 1,021</u>	<u>\$ 3,334</u>

The Company has formal tax-sharing agreements, and files a consolidated income tax return, with its subsidiaries. Tax years 2018, 2019 and 2020 are considered open tax years that remain subject to examination by the Internal Revenue Service.

Note 8. Credit Arrangements

The Company is preparing for the expected discontinuation of LIBOR by identifying, assessing and monitoring risks associated with LIBOR transition. Preparation includes taking steps to update operational processes to support alternative reference rates and models, as well as evaluating legacy contracts for any changes that may be required, including the determination of applicable fallbacks.

Bank Debt

On May 12, 2021, the Company entered into a Revolving Credit Agreement (the “Credit Agreement”) with Truist Bank as the lender (the “Lender”). The Credit Agreement provides for an unsecured \$10 million revolving credit facility that matures on April 12, 2024. Under the Credit Agreement, the Company will pay interest on the unpaid principal balance of outstanding revolving loans at the LIBOR Rate (as defined in the Credit Agreement) plus 2.00%, subject to a LIBOR floor rate of 1.00%.

The Credit Agreement requires the Company to comply with certain covenants, including a debt to capital ratio that restricts the Company from incurring consolidated indebtedness that exceeds 35% of the Company’s consolidated capitalization at any time. The Credit Agreement also contains customary representations and warranties and events of default. Events of default include, among others, (a) the failure by the Company to pay any amounts owed under the Credit Agreement when due, (b) the failure to perform and not timely remedy certain covenants, (c) a change in control of the Company and (d) the occurrence of bankruptcy or insolvency events. Upon an event of default, the Lender may, among other things, declare all obligations under the Credit Agreement immediately due and payable and terminate the revolving commitments. As of December 31 2021, the Company does not have any outstanding borrowings under the Credit Agreement.

Junior Subordinated Debentures

The Company has two unconsolidated Connecticut statutory business trusts, which exist for the exclusive purposes of: (i) issuing trust preferred securities (“Trust Preferred Securities”) representing undivided beneficial interests in the assets of the trusts; (ii) investing the gross proceeds of the Trust Preferred Securities in junior subordinated deferrable interest debentures (“Junior Subordinated Debentures”) of Atlantic American; and (iii) engaging in those activities necessary or incidental thereto. At December 31, 2021, the effective interest rate was 4.22%.

The financial structure of each of Atlantic American Statutory Trust I and II, as of December 31, 2021 and 2020, was as follows:

	Atlantic American Statutory Trust I	Atlantic American Statutory Trust II
JUNIOR SUBORDINATED DEBENTURES⁽¹⁾⁽²⁾		
Balance December 31, 2021	\$ 18,042	\$ 23,196
Less: Treasury debt ⁽³⁾	—	(7,500)
Net balance December 31, 2021	<u>\$ 18,042</u>	<u>\$ 15,696</u>
Net balance December 31, 2020	<u>\$ 18,042</u>	<u>\$ 15,696</u>
Coupon rate	LIBOR + 4.00%	LIBOR + 4.10%
Interest payable	Quarterly	Quarterly
Maturity date	December 4, 2032	May 15, 2033
Redeemable by issuer	Yes	Yes
TRUST PREFERRED SECURITIES		
Issuance date	December 4, 2002	May 15, 2003
Securities issued	17,500	22,500
Liquidation preference per security	\$ 1	\$ 1
Liquidation value	\$ 17,500	\$ 22,500
Coupon rate	LIBOR + 4.00%	LIBOR + 4.10%
Distribution payable	Quarterly	Quarterly
Distribution guaranteed by ⁽⁴⁾	Atlantic American Corporation	Atlantic American Corporation

- (1) For each of the respective debentures, the Company has the right at any time, and from time to time, to defer payments of interest on the Junior Subordinated Debentures for a period not exceeding 20 consecutive quarters up to the debentures' respective maturity dates. During any such period, interest will continue to accrue and the Company may not declare or pay any cash dividends or distributions on, or purchase, the Company's common stock nor make any principal, interest or premium payments on or repurchase any debt securities that rank equally with or junior to the Junior Subordinated Debentures. The Company has the right at any time to dissolve each of the trusts and cause the Junior Subordinated Debentures to be distributed to the holders of the Trust Preferred Securities.
- (2) The Junior Subordinated Debentures are unsecured and rank junior and subordinate in right of payment to all senior debt of the Parent and are effectively subordinated to all existing and future liabilities of its subsidiaries.
- (3) In 2014, the Company acquired \$7,500 of the Junior Subordinated Debentures.
- (4) The Parent has guaranteed, on a subordinated basis, all of the obligations under the Trust Preferred Securities, including payment of the redemption price and any accumulated and unpaid distributions to the extent of available funds and upon dissolution, winding up or liquidation.

Note 9. Leases

The Company has two operating lease agreements, each for the use of office space in the ordinary course of business. The first lease renews annually on an automatic basis and based on original assumptions, management is reasonably certain to exercise the renewal option through 2026. The original term of the second lease was ten years and amended in January 2017 to provide for an additional seven years, with a termination date on September 30, 2026. The rate used in determining the present value of lease payments is based upon an estimate of the Company's incremental secured borrowing rate commensurate with the term of the underlying lease.

These leases are accounted for as operating leases, whereby lease expense is recognized on a straight-line basis over the term of the lease. Lease expense reported for each of the years ended December 31, 2021 and 2020 was \$1,014.

Additional information regarding the Company's real estate operating leases is as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Other information on operating leases:		
Cash payments included in the measurement of lease liabilities reported in operating cash flows	\$ 1,015	978
Right-of-use assets included in other assets on the consolidated balance sheet	4,143	4,832
Weighted average discount rate	6.8%	6.8%
Weighted average remaining lease term in years	4.9 years	5.9 years

The following table presents maturities and present value of the Company's lease liabilities:

	Lease Liability
2022	\$ 1,031
2023	1,048
2024	1,065
2025	1,083
2026	942
Thereafter	—
Total undiscounted lease payments	5,169
Less: present value adjustment	791
Operating lease liability included in accounts payable and accrued expenses on the consolidated balance sheet	\$ 4,378

As of December 31, 2021, the Company has no operating leases that have not yet commenced.

Note 10. Benefit Plans

Equity Incentive Plan

On May 1, 2012, the Company's shareholders approved the 2012 Equity Incentive Plan (the "2012 Plan"). The 2012 Plan authorizes the grant of up to 2,000,000 stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares, performance units and other awards for the purpose of providing the Company's non-employee directors, consultants, officers and other employees incentives and rewards for superior performance. In 2021, there were no restricted shares issued under the 2012 Plan. In 2020, a total of 20,000 restricted shares, with an estimated fair value of \$38, were issued under the 2012 Plan and 35,000 restricted shares, with an estimated fair value of \$98, were forfeited under such plan. The estimated fair value of the restricted shares issued under the 2012 Plan for 2021 and 2020 was based on the common stock price at date of grant. Stock grants are generally issued from treasury shares. Vesting of restricted shares generally occurs after a one to three year period. The Company accounts for forfeitures as they occur. There were no stock options granted or outstanding under the 2012 Plan in 2021 or 2020. Shares available for future grant at December 31, 2021 and 2020 were 935,200 and 935,200, respectively.

401(k) Plan

The Company initiated an employees' savings plan (the "Plan") qualified under Section 401(k) of the Internal Revenue Code in May 1995. The Plan covers substantially all of the Company's employees. Effective January 1, 2009, the Company modified the Plan such that the Plan would operate on a safe harbor basis. Under the Plan, employees may defer up to 50% of their compensation, not to exceed the annual deferral limit. The Company's total matching contribution for 2021 and 2020 was \$272 and \$231, respectively, and consisted of a contribution equal to 35% of up to the first 6% of each participant's contributions. In addition to the matching contribution, the Company also provided a 3% safe harbor non-elective contribution in 2021 and 2020 of \$549 and \$520, respectively. All contributions were made in cash. Participants are 100% vested in their own contributions and the vested percentage attributable to certain employer contributions is based on a five-year graded schedule.

Agent Stock Purchase Plan

The Company initiated a nonqualified stock purchase plan (the "Agent Stock Purchase Plan") in May 2012. The purpose of the Agent Stock Purchase Plan is to promote and advance the interests of the Company and its shareholders by providing independent agents who qualify as participants with an opportunity to purchase the common stock of the Company. Under the Agent Stock Purchase Plan, payment for shares of common stock of the Company is made by either deduction from an agent's commission payment or a direct cash payment. Stock purchases are made at the end of each calendar quarter at the then current market value.

Note 11. Preferred Stock

The Company had 55,000 shares of Series D preferred stock (“Series D Preferred Stock”) outstanding at December 31, 2021 and 2020, respectively. All of the shares of Series D Preferred Stock are held by an affiliate of the Company’s controlling shareholder. The outstanding shares of Series D Preferred Stock have a par value of \$1 per share and a redemption value of \$100 per share; accrue annual dividends at a rate of \$7.25 per share (payable in cash or shares of the Company’s common stock at the option of the board of directors of the Company) and are cumulative. In certain circumstances, the shares of the Series D Preferred Stock may be convertible into an aggregate of approximately 1,378,000 shares of the Company’s common stock, subject to certain adjustments and provided that such adjustments do not result in the Company issuing more than approximately 2,703,000 shares of common stock without obtaining prior shareholder approval; and are redeemable solely at the Company’s option. The Series D Preferred Stock is not currently convertible. The Company had accrued, but unpaid, dividends, on the Series D Preferred Stock of \$18 at December 31, 2021 and 2020. During each of 2021 and 2020, the Company paid Series D Preferred Stock dividends of \$399.

Note 12. Earnings Per Common Share

Basic earnings per share was computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share reflected the effect of potentially dilutive securities.

A reconciliation of the numerator and denominator of the income per common share calculations is as follows:

	For the Year Ended December 31, 2021		
	Income	Weighted Average Shares Outstanding (In thousands)	Per Share Amount
Basic and Diluted Earnings Per Common Share			
Net income before preferred stock dividends	\$ 4,281	20,402	
Less preferred stock dividends	(399)	—	
Net income applicable to common shareholders	<u>\$ 3,882</u>	<u>20,402</u>	<u>\$ 0.19</u>
	For the Year Ended December 31, 2020		
	Income	Weighted Average Shares Outstanding (In thousands)	Per Share Amount
Basic Earnings Per Common Share			
Net income before preferred stock dividends	\$ 12,169	20,441	
Less preferred stock dividends	(399)	—	
Net income applicable to common shareholders	<u>11,770</u>	<u>20,441</u>	<u>0.58</u>
Diluted Earnings Per Common Share			
Effect of Series D preferred stock	<u>399</u>	<u>1,378</u>	
Net income applicable to common shareholders	<u>\$ 12,169</u>	<u>21,819</u>	<u>\$ 0.56</u>

The assumed conversion of the Company’s Series D Preferred Stock was excluded from the earnings per common share calculation for 2021 since its impact would have been antidilutive.

Note 13. Statutory Reporting

The assets, liabilities and results of operations have been reported on the basis of GAAP, which varies in some respects from statutory accounting practices (“SAP”) prescribed or permitted by insurance regulatory authorities. The principal differences between SAP and GAAP are that under SAP: (i) certain assets that are non-admitted assets are eliminated from the balance sheet; (ii) acquisition costs for policies are expensed as incurred, while they are deferred and amortized over the estimated life of the policies under GAAP; (iii) the provision that is made for deferred income taxes is different than under GAAP; (iv) the timing of establishing certain reserves is different than under GAAP; and (v) certain valuation allowances attributable to certain investments are different.

The Company meets the minimum capital requirements in the states in which it does business. The amount of reported statutory net income and surplus (shareholders' equity) for the Parent's insurance subsidiaries for the years ended December 31 was as follows:

	2021	2020
Bankers Fidelity, net income (loss)	\$ (364)	\$ 7,712
American Southern, net income	7,688	8,575
Statutory net income	<u>\$ 7,324</u>	<u>\$ 16,287</u>
Bankers Fidelity, surplus	\$ 38,625	\$ 42,326
American Southern, surplus	52,724	50,194
Statutory surplus	<u>\$ 91,349</u>	<u>\$ 92,520</u>

Under the insurance code of the state in which each insurance subsidiary is domiciled, dividend payments to the Parent by its insurance subsidiaries are subject to certain limitations without the prior approval of the applicable state's Insurance Commissioner. The Parent received dividends of \$8,400 and \$3,900 in the years ended 2021 and 2020, respectively, from its subsidiaries. In 2021, dividend payments to the Parent by the insurance subsidiaries in excess of \$5,629 would require prior approval.

Note 14. Related Party Transactions

In the normal course of business the Company has engaged in transactions with entities affiliated with the controlling shareholder of the Company. These transactions include the leasing of office space as well as certain investing and financing activities. At December 31, 2021, two members of the Company's board of directors, including the Company's Chairman, President and Chief Executive Officer, were considered to be affiliates of the majority shareholder.

The Company leases approximately 49,586 square feet of office and covered garage space from one such controlled entity. During the years ended December 31, 2021 and 2020, the Company paid \$879 and \$939, respectively, under this lease. Additionally, in each of the years ended December 31, 2021 and 2020, this entity owned 1,663,809 shares of the Company's common stock.

Certain financing for the Company has also been provided by this entity in the form of an investment in the Series D Preferred Stock (See Note 11). During the years ended December 31, 2021 and 2020, the Company paid this entity \$399 in dividends on the Series D Preferred Stock.

Certain members of the Company's management and board of directors are shareholders and on the board of directors of Gray Television, Inc. ("Gray"). As of December 31, 2021 and 2020, the Company owned 880,272 shares of Gray Class A common stock and 106,000 shares of Gray common stock. The aggregate carrying value of these investments in Gray at December 31, 2021 and 2020 was \$18,325 and \$16,606, respectively.

In each of the years ended December 31, 2021 and 2020, Gray paid the Company approximately \$1,308 in insurance premiums related to certain voluntary employee benefit plans.

Note 15. Segment Information

The Parent's primary insurance subsidiaries operate with relative autonomy and each company is evaluated based on its individual performance. American Southern operates in the property and casualty insurance market, while Bankers Fidelity operates in the life and health insurance market. Each segment derives revenue from the collection of premiums, as well as from investment income. Substantially all revenue other than that in the corporate and other segment is from external sources.

	For the Year Ended December 31, 2021				
	American Southern	Bankers Fidelity	Corporate & Other	Adjustments & Eliminations	Consolidated
Insurance premiums, net	\$ 67,982	\$ 116,234	\$ —	\$ —	\$ 184,216
Insurance benefits and losses incurred	44,433	87,261	—	—	131,694
Expenses deferred	(10,690)	(12,461)	—	—	(23,151)
Amortization and depreciation expense	10,756	13,692	537	—	24,985
Other expenses	20,077	33,484	16,255	(9,092)	60,724
Total expenses	64,576	121,976	16,792	(9,092)	194,252
Underwriting income (loss)	3,406	(5,742)	—	—	(2,336)
Net investment income (loss)	3,570	5,204	1,466	(1,712)	8,528
Other income (loss)	4	9	7,380	(7,380)	13
Operating income (loss)	6,980	(529)	(7,946)	—	(1,495)
Net realized gains	2,198	2,705	—	—	4,903
Unrealized gains on equity securities	114	1,550	230	—	1,894
Income (loss) before income taxes	\$ 9,292	\$ 3,726	\$ (7,716)	\$ —	\$ 5,302
Total revenues	\$ 73,868	\$ 125,702	\$ 9,076	\$ (9,092)	\$ 199,554
Intangibles	\$ 1,350	\$ 1,194	\$ —	\$ —	\$ 2,544
Total assets	\$ 161,788	\$ 227,395	\$ 177,638	\$ (164,535)	\$ 402,286

	For the Year Ended December 31, 2020				
	American Southern	Bankers Fidelity	Corporate & Other	Adjustments & Eliminations	Consolidated
Insurance premiums, net	\$ 62,372	\$ 121,167	\$ —	\$ —	\$ 183,539
Insurance benefits and losses incurred	39,339	80,537	—	—	119,876
Expenses deferred	(9,910)	(10,233)	—	—	(20,143)
Amortization and depreciation expense	9,772	10,007	594	—	20,373
Other expenses	19,542	34,403	14,526	(8,732)	59,739
Total expenses	58,743	114,714	15,120	(8,732)	179,845
Underwriting income	3,629	6,453	—	—	10,082
Net investment income (loss)	3,586	4,971	1,174	(1,987)	7,744
Other income (loss)	37	11	6,773	(6,745)	76
Operating income (loss)	7,252	11,435	(7,173)	—	11,514
Net realized gains	3,389	4,031	—	—	7,420
Unrealized losses on equity securities	(205)	(3,036)	(190)	—	(3,431)
Income (loss) before income taxes	\$ 10,436	\$ 12,430	\$ (7,363)	\$ —	\$ 15,503
Total revenues	\$ 69,179	\$ 127,144	\$ 7,757	\$ (8,732)	\$ 195,348
Intangibles	\$ 1,350	\$ 1,194	\$ —	\$ —	\$ 2,544
Total assets	\$ 158,808	\$ 236,197	\$ 183,178	\$ (172,996)	\$ 405,187

Note 16. Commitments and Contingencies

Litigation

From time to time, the Company is, and expects to continue to be, involved in various claims and lawsuits incidental to and in the ordinary course of its business. In the opinion of management, any such known claims are not expected to have a material effect on the financial condition or results of operations of the Company.

Regulatory matters

Like all domestic insurance companies, the Company's insurance subsidiaries are subject to regulation and supervision in the jurisdictions in which they do business. Statutes typically delegate regulatory, supervisory, and administrative powers to state insurance commissioners. From time to time, and in the ordinary course of business, the Company receives notices and inquiries from state insurance departments with respect to various matters.

In November 2021, the Company was made aware by a state regulatory authority of alleged violations relating to certain sales of insurance policies and that the Company may be subject to regulatory action, including fines. Management is currently engaged in discussions with the state regulatory authorities with respect to a resolution; however, inasmuch as this matter is of recent origin, Management is unable at this time to predict the ultimate outcome.

Note 17. Subsequent Events

On March 22, 2022, the Company's board of directors declared an annual cash dividend of \$0.02 per share of common stock that is payable to shareholders of record as of the close of business on April 13, 2022.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based on that evaluation, management, including the Chief Executive Officer and Chief Financial Officer, concluded that disclosure controls and procedures were effective as of that date.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control over financial reporting system has been designed to provide reasonable assurance regarding the reliability and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Management recognizes that there are inherent limitations in the effectiveness of any internal control system. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Furthermore, the application of any evaluations of effectiveness on 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. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2021 based upon the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the updated 2013 *Internal Control – Integrated Framework*. Based on that evaluation, management believes that internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f) was effective as of December 31, 2021.

There were no changes in our internal control over financial reporting that occurred during the fourth quarter of 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to certain rules of the Securities and Exchange Commission that exempt non-accelerated filers, including the Company, from such requirement.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

With the exception of certain information relating to the executive officers of the Company, which is provided in Part I hereof, the information relating to securities authorized for issuance under equity compensation plans and the information relating to the Company’s Code of Business Conduct and Ethics, each of which is included below, all information required by Part III (Items 10, 11, 12, 13 and 14 of Form 10-K) is incorporated by reference to the sections entitled “Election of Directors,” “Security Ownership of Certain Beneficial Owners and Management,” “Delinquent Section 16(a) Reports” (if applicable), “Executive Compensation,” “Certain Relationships and Related Transactions” and “Ratification of the Appointment of the Company’s Independent Registered Public Accounting Firm” to be contained in the Company’s definitive proxy statement in connection with the Company’s Annual Meeting of Shareholders to be held on or around May 24, 2022, to be filed with the SEC within 120 days of the Company’s fiscal year end.

Equity Compensation Plan Information

The following table sets forth, as of December 31, 2021, the number of securities issuable upon exercise of outstanding options, warrants and rights, the weighted average exercise price thereof and the number of securities remaining available for future issuance under the Company’s equity compensation plans:

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders	—	\$ —	935,200
Equity compensation plans not approved by security holders ⁽¹⁾	—	—	—
Total	—	\$ —	935,200

(1) All the Company’s equity compensation plans have been approved by the Company’s shareholders.

Code of Business Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or any persons performing similar functions, as well as its directors and other employees. A copy of this Code of Business Conduct and Ethics has been filed as an exhibit to this annual report on Form 10-K.

PART IV**Item 15. Exhibits and Financial Statement Schedules**

(a) List of documents filed as part of this report:

1. Financial Statements:

See Index to Financial Statements contained in Item 8 hereof.

2. Financial Statement Schedules:

Schedule II - Condensed financial information of the registrant

Schedule III - Supplementary insurance information of the registrant

Schedule IV - Reinsurance information for the registrant

Schedule VI - Supplemental information concerning property-casualty insurance operations of the registrant

Schedules other than those listed above are omitted as they are not required or are not applicable, or the required information is shown in the financial statements or notes thereto. Columns omitted from schedules filed have been omitted because the information is not applicable.

3. Exhibits *:

3.1	Restated Articles of Incorporation of the registrant, as amended [incorporated by reference to Exhibit 3.1 to the registrant's Form 10-K for the year ended December 31, 2008].
3.2	Restated Bylaws of the registrant, as amended [incorporated by reference to Exhibit 3.1 to the registrant's Form 8-K filed on March 4, 2016].
4.1	Description of the registrant's common stock registered pursuant to section 12 of the Securities Exchange Act of 1934 [incorporated by reference to Exhibit 4.1 to the registrant's Form 10-K filed on March 24, 2020].
10.01	Management Agreement, dated July 1, 1993, between the registrant and Atlantic American Life Insurance Company and Bankers Fidelity Life Insurance Company [incorporated by reference to Exhibit 10.41 to the registrant's Form 10-Q for the quarter ended September 30, 1993].
10.02	Tax Allocation Agreement, dated as of January 4, 2016, between the registrant and the registrant's subsidiaries [incorporated by reference to Exhibit 10.02 to the registrant's Form 10-K for the year ended December 31, 2017].
10.03**	Atlantic American Corporation 2012 Nonqualified Stock Purchase Plan [incorporated by reference to Exhibit 99.1 to the registrant's Form S-8 (File No. 333-183207) filed on August 10, 2012].
10.04**	Atlantic American Corporation 2012 Equity Incentive Plan [incorporated by reference to Exhibit 10.1 to the registrant's Form 10-Q for the quarter ended March 31, 2013].
10.05	Lease Agreement, dated as of November 1, 2007, between Georgia Casualty & Surety Company, Bankers Fidelity Life Insurance Company, Atlantic American Corporation and Delta Life Insurance Company [incorporated by reference to Exhibit 10.10 to the registrant's Form 10-K for the year ended December 31, 2007].
10.06	First Amendment to Lease Agreement, dated as of March 31, 2008, between Georgia Casualty & Surety Company, Bankers Fidelity Life Insurance Company, Atlantic American Corporation and Delta Life Insurance Company [incorporated by reference to Exhibit 10.2 to the registrant's Form 10-Q for the quarter ended March 31, 2008].
10.07**	Employment and Transition Agreement with Fixed Determination Date, dated as of June 14, 2017 by and between John G. Sample, Jr. and the registrant [incorporated by reference to Exhibit 10.07 to the registrant's Form 10-K for the year ended December 31, 2017].
10.08	Revolving Credit Agreement, dated as of May 12, 2021, by and between Atlantic American Corporation and Truist Bank [incorporated by reference to Exhibit 10.1 to the registrant's Form 8-K filed with the SEC on May 13, 2021].
14.1	Code of Business Conduct and Ethics [incorporated by reference to Exhibit 14.1 to the registrant's Form 10-K for the year ended December 31, 2003].
21.1	Subsidiaries of the registrant [incorporated by reference to Exhibit 21.1 to the registrant's Form 10-K for the year ended December 31, 2015].
23.1	Consent of Dixon Hughes Goodman LLP, Independent Registered Public Accounting Firm.
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).
101.SCH	Inline XBRL Taxonomy Extension Schema.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

* The registrant agrees to furnish to the Commission upon request a copy of any instruments defining the rights of security holders of the registrant that may be omitted from filing in accordance with the Commission's rules and regulations.

** Management contract, compensatory plan or arrangement required to be filed pursuant to Part IV, Item 15(c) of Form 10-K and Item 601 of Regulation S-K.

Item 16. Form 10-K Summary

None.

SIGNATURES

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

ATLANTIC AMERICAN CORPORATION
(Registrant)

By: /s/ J. Ross Franklin
J. Ross Franklin
Vice President and Chief Financial Officer

Date: March 25, 2022

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

Signature	Title	Date
<u>/s/ Hilton H. Howell, Jr.</u> HILTON H. HOWELL, JR.	President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 25, 2022
<u>/s/ J. Ross Franklin</u> J. ROSS FRANKLIN	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 25, 2022
<u>/s/ Robin R. Howell</u> ROBIN R. HOWELL	Director	March 25, 2022
<u>/s/ Mark E. Preisinger</u> MARK E. PREISINGER	Director	March 25, 2022
<u>/s/ Joseph M. Scheerer</u> JOSEPH M. SCHEERER	Director	March 25, 2022
<u>/s/ Scott G. Thompson</u> SCOTT G. THOMPSON	Director	March 25, 2022
<u>/s/ D. Keehln Wheeler</u> D. KEEHLN WHEELER	Director	March 25, 2022

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
ATLANTIC AMERICAN CORPORATION
(Parent Company Only)
BALANCE SHEETS
ASSETS

	December 31,	
	2021	2020
	(In thousands)	
Cash and cash equivalents	\$ 1,718	\$ 2,090
Investments	2,749	2,598
Investment in subsidiaries	164,535	172,996
Investments in unconsolidated trusts	1,238	1,238
Deferred tax asset, net	1,237	—
Income taxes receivable from subsidiaries	2,171	1,683
Other assets	5,791	4,311
Total assets	<u>\$ 179,439</u>	<u>\$ 184,916</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Deferred tax liability, net	\$ —	\$ 1,765
Other payables	4,415	4,353
Junior subordinated debentures	33,738	33,738
Total liabilities	<u>38,153</u>	<u>39,856</u>
Shareholders' equity	141,286	145,060
Total liabilities and shareholders' equity	<u>\$ 179,439</u>	<u>\$ 184,916</u>

See accompanying report of independent registered public accounting firm.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
ATLANTIC AMERICAN CORPORATION
(Parent Company Only)
STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2021	2020
	(In thousands)	
REVENUE		
Fee income from subsidiaries	\$ 7,380	\$ 6,745
Distributed earnings from subsidiaries	8,400	3,900
Unrealized gains (losses) on equity securities, net	230	(191)
Other	(247)	(784)
Total revenue	15,763	9,670
GENERAL AND ADMINISTRATIVE EXPENSES	13,654	11,521
INTEREST EXPENSE	1,387	1,610
	722	(3,461)
INCOME TAX BENEFIT ⁽¹⁾	(2,840)	(3,623)
	3,562	162
EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARIES, NET	719	12,007
NET INCOME	\$ 4,281	\$ 12,169

- (1) Under the terms of a tax-sharing agreement, income tax provisions for the subsidiary companies are computed on a separate company basis. Accordingly, the Company's income tax benefit results from the utilization of the Parent's separate return loss to reduce the consolidated taxable income of the Company.

See accompanying report of independent registered public accounting firm.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
ATLANTIC AMERICAN CORPORATION
(Parent Company Only)

STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2021	2020
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 4,281	\$ 12,169
Adjustments to reconcile net income to net cash provided by operating activities:		
Unrealized (gains) losses on equity securities, net	(230)	191
Depreciation and amortization	538	594
Compensation expense related to share awards	211	437
Equity in undistributed earnings of subsidiaries, net	(719)	(12,007)
(Increase) decrease in intercompany taxes	(489)	622
Deferred income tax benefit	(1,058)	(2,446)
Increase in accounts payable and accrued expenses	63	121
Other, net	(1,966)	917
Net cash provided by operating activities	<u>631</u>	<u>598</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(49)	(95)
Net cash used in investing activities	<u>(49)</u>	<u>(95)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends on Series D preferred stock	(399)	(399)
Payment of dividends on common stock	(408)	—
Proceeds from shares issued under stock plans	6	9
Treasury stock acquired — net employee share-based compensation	(153)	(91)
Net cash used in financing activities	<u>(954)</u>	<u>(481)</u>
Net (decrease) increase in cash	(372)	22
Cash and cash equivalents at beginning of year	2,090	2,068
Cash and cash equivalents at end of year	<u>\$ 1,718</u>	<u>\$ 2,090</u>
Supplemental disclosure:		
Cash paid for interest	\$ 1,389	\$ 1,665
Cash paid for income taxes	\$ 3,202	\$ 3,883
Intercompany tax settlement from subsidiaries	\$ 6,734	\$ 1,798

See accompanying report of independent registered public accounting firm.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION

Segment	Deferred Acquisition Costs	Future Policy Benefits, Losses, Claims and Loss Reserves	Unearned Premiums	Other Policy Claims and Benefits Payable
(In thousands)				
December 31, 2021:				
Bankers Fidelity	\$ 36,308	\$ 115,712	\$ 3,689	\$ 1,360
American Southern	2,390	57,256	23,780	—
	<u>\$ 38,698</u>	<u>\$ 172,968⁽¹⁾</u>	<u>\$ 27,469</u>	<u>\$ 1,360</u>
December 31, 2020:				
Bankers Fidelity	\$ 37,312	\$ 115,136	\$ 4,199	\$ 1,526
American Southern	2,299	54,883	22,932	—
	<u>\$ 39,611</u>	<u>\$ 170,019⁽²⁾</u>	<u>\$ 27,131</u>	<u>\$ 1,526</u>

(1) Includes future policy benefits of \$87,348 and losses and claims of \$85,620.

(2) Includes future policy benefits of \$90,872 and losses and claims of \$79,147.

See accompanying report of independent registered public accounting firm.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION

Segment	Premium Revenue	Net Investment Income	Benefits, Claims, Losses and Settlement Expenses	Amortization of Deferred Acquisition Costs	Other Operating Expenses	Casualty Premiums Written
(In thousands)						
December 31, 2021:						
Bankers Fidelity	\$ 116,234	\$ 5,204	\$ 87,261	\$ 13,465	\$ 21,250	\$ —
American Southern	67,982	3,570	44,433	10,599	9,544	69,403
Corporate & other	—	(246)	—	—	7,700	—
	<u>\$ 184,216</u>	<u>\$ 8,528</u>	<u>\$ 131,694</u>	<u>\$ 24,064</u>	<u>\$ 38,494</u>	<u>\$ 69,403</u>
December 31, 2020:						
Bankers Fidelity	\$ 121,167	\$ 4,971	\$ 80,537	\$ 9,803	\$ 24,374	\$ —
American Southern	62,372	3,586	39,339	9,590	9,814	64,366
Corporate & other	—	(813)	—	—	6,388	—
	<u>\$ 183,539</u>	<u>\$ 7,744</u>	<u>\$ 119,876</u>	<u>\$ 19,393</u>	<u>\$ 40,576</u>	<u>\$ 64,366</u>

See accompanying report of independent registered public accounting firm.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
REINSURANCE INFORMATION

	<u>Direct Amount</u>	<u>Ceded to Other Companies</u>	<u>Assumed From Other Companies</u>	<u>Net Amounts</u>	<u>Percentage of Amount Assumed to Net</u>
	(Dollars in thousands)				
Year ended December 31, 2021:					
Life insurance in force	\$ 416,480	\$ (9,487)	\$ —	\$ 406,993	
Premiums —					
Bankers Fidelity	\$ 183,382	\$ (67,155)	\$ 7	\$ 116,234	0.0%
American Southern	52,424	(6,511)	22,069	67,982	32.5%
Total premiums	<u>\$ 235,806</u>	<u>\$ (73,666)</u>	<u>\$ 22,076</u>	<u>\$ 184,216</u>	<u>12.0%</u>
Year ended December 31, 2020:					
Life insurance in force	\$ 294,392	\$ (11,032)	\$ —	\$ 283,360	
Premiums —					
Bankers Fidelity	\$ 193,082	\$ (71,924)	\$ 9	\$ 121,167	0.0%
American Southern	45,127	(5,890)	23,135	62,372	37.1%
Total premiums	<u>\$ 238,209</u>	<u>\$ (77,814)</u>	<u>\$ 23,144</u>	<u>\$ 183,539</u>	<u>12.6%</u>

See accompanying report of independent registered public accounting firm.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL INFORMATION CONCERNING
PROPERTY-CASUALTY INSURANCE OPERATIONS

Year Ended	Deferred Policy Acquisition Costs	Reserves	Unearned Premiums	Earned Premiums	Net Investment Income	Claims and Claim Adjustment Expenses Incurred Related To		Amortization of Deferred Acquisition Costs	Paid Claims and Claim Adjustment Expenses	Premiums Written
						Current Year	Prior Years			
						(In thousands)				
December 31, 2021	\$ 2,390	\$ 57,256	\$ 23,780	\$ 67,982	\$ 3,570	\$ 48,678	\$ (4,245)	\$ 10,599	\$ 40,370	\$ 69,403
December 31, 2020	\$ 2,299	\$ 54,883	\$ 22,932	\$ 62,372	\$ 3,586	\$ 39,859	\$ (520)	\$ 9,590	\$ 37,645	\$ 64,366

See accompanying report of independent registered public accounting firm.

CONSENT OF DIXON HUGHES GOODMAN LLP
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Atlantic American Corporation
Atlanta, Georgia

We consent to the incorporation by reference in the registration statements (Nos. 333-183207 and 333-183210) on Form S-8 of Atlantic American Corporation of our report dated March 25, 2022, with respect to the consolidated financial statements and schedules of Atlantic American Corporation as of and for the year ended December 31, 2021, which report appears in Atlantic American Corporation's Annual Report on Form 10-K.

/s/ Dixon Hughes Goodman LLP
Atlanta, Georgia
March 25, 2022

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Hilton H. Howell, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Atlantic American Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2022

/s/ Hilton H. Howell, Jr.

Hilton H. Howell, Jr.
President and Chief Executive Officer

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, J. Ross Franklin, certify that:

1. I have reviewed this annual report on Form 10-K of Atlantic American Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2022

/s/ J. Ross Franklin

J. Ross Franklin
Vice President and Chief Financial Officer

Certifications Pursuant to §906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Annual Report on Form 10-K of Atlantic American Corporation (the “Company”) for the year ended December 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies, that, to such officer’s knowledge:

- (1) The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: March 25, 2022

/s/ Hilton H. Howell, Jr.

Hilton H. Howell, Jr.

President and Chief Executive Officer

Date: March 25, 2022

/s/ J. Ross Franklin

J. Ross Franklin

Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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, 2022

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-3722

ATLANTIC AMERICAN CORPORATION

(Exact name of registrant as specified in its charter)

Georgia
(State or other jurisdiction of incorporation or organization)
4370 Peachtree Road, N.E.,
Atlanta, Georgia
(Address of principal executive offices)

58-1027114
(I.R.S. Employer Identification No.)

30319
(Zip Code)

(Registrant's telephone number, including area code) **(404) 266-5500**
Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$1.00 per share	AAME	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 definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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 common stock held by non-affiliates of the registrant as of June 30, 2022, the last business day of the registrant's most recently completed second fiscal quarter, was \$10,809,906. For purposes hereof, beneficial ownership is determined under rules adopted pursuant to Section 13 of the Securities Exchange Act of 1934, and the foregoing excludes value ascribed to common stock that may be deemed beneficially owned by the directors and executive officers, and 10% or greater stockholders, of the registrant, some of whom may not be deemed to be affiliates upon judicial determination. On June 12, 2023, there were 20,404,699 of the registrant's common stock, par value \$1.00 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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EXPLANATORY NOTE

As disclosed in the Company's Form 12b-25 filed on April 3, 2023 and Form 12b-25 filed on May 22, 2023, the Company was unable to file its Annual Report on Form 10-K for the year ended December 31, 2022 (this "Form 10-K"), and its Quarterly Report on Form 10-Q for the three month period ended March 31, 2023 (the "Form 10-Q"), respectively, within the prescribed time periods because the Company required additional time to finalize its actuarial valuation procedures and related financial statement balances within the Company's life and health segment, Bankers Fidelity. The need for additional time resulted from a change in the systems used to perform the actuarial valuations, as further described below.

During the fourth quarter of 2022, Bankers Fidelity commenced a conversion of the actuarial valuation system for its Medicare Supplement line of business. In connection with the implementation of the new system, parallel valuation procedures were performed using the new system (the "New System") and were compared to the legacy system (the "Legacy System") for historical periods. As part of that process, the Company concluded that additional time was required in order to undertake and finalize analyses of the valuation procedures, assumptions and results, and the related financial statement balances. Due to the scope of the review and the time and effort required to complete the implementation of the New System and analyze the resulting valuations, the Company was unable to timely file this Form 10-K and the Form 10-Q.

After the Company completed the implementation of the New System and the associated valuation procedures and analyses during the first half of 2023, the Company was able to complete the preparation of its financial statements and this Form 10-K and the Form 10-Q, respectively, which are being filed concurrently on the date hereof, and there were no changes to any of the Company's historical financial statements. In connection with the foregoing, and the related evaluations of the Company's internal control over financial reporting, the Company's management identified certain deficiencies in internal control that management believes rise to the level of a material weakness, and management took steps to implement changes to remediate those deficiencies during the periods covered by this Form 10-K and the Form 10-Q, all as described under Part II, Item 9A. "Controls and Procedures" in this Form 10-K.

FORWARD-LOOKING STATEMENTS

Certain of the statements contained or incorporated by reference herein are forward-looking statements within the meaning of the federal securities laws. Forward-looking statements are all statements other than those of historical fact. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934, and include estimates and assumptions related to, among other things, general economic, competitive, operational and legislative developments, expectations and trends. Forward-looking statements are inherently subject to risks and uncertainties which are, in many instances, beyond the Company's control and have been made based upon management's current expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with management's expectations or that the effect of future developments on the Company will be those anticipated by management. Actual results could differ materially from those expressed by forward-looking statements, depending on the occurrence or outcome of various factors. These factors include, among others: the effects of macroeconomic conditions and general economic uncertainty; unexpected developments in the health care or insurance industries affecting providers or individuals, including the cost or availability of services, or the tax consequences related thereto; disruption to the financial markets; unanticipated increases in the rate, number and amounts of claims outstanding; our ability to remediate the identified material weakness in our internal control over financial reporting; the level of performance of reinsurance companies under reinsurance contracts and the availability, pricing and adequacy of reinsurance to protect the Company against losses; changes in the stock markets, interest rates or other financial markets, including the potential effect on the Company's statutory capital levels; the uncertain effect on the Company of regulatory and market-driven changes in practices relating to the payment of incentive compensation to brokers, agents and other producers; the potential impact of public health emergencies, such as COVID-19; the incidence and severity of catastrophes, both natural and man-made; the possible occurrence of terrorist attacks; stronger than anticipated competitive activity; unfavorable judicial or legislative developments; the potential effect of regulatory developments, including those which could increase the Company's business costs and required capital levels; the Company's ability to distribute its products through distribution channels, both current and future; the uncertain effect of emerging claim and coverage issues; the effect of assessments and other surcharges for guaranty funds and other mandatory pooling arrangements; and risks related to cybersecurity matters, such as breaches of our computer network or the loss of unauthorized access to the data we maintain. As a result, undue reliance should not be placed upon forward-looking statements. The Company undertakes no obligation to publicly update any forward-looking statements as a result of subsequent developments, changes in underlying assumptions or facts or otherwise, except as may be required by law.

PART I

Item 1. Business

The Company

Atlantic American Corporation, a Georgia corporation incorporated in 1968 (the “Parent” or “Company”), is a holding company that operates through its subsidiaries in well-defined specialty markets within the life and health and property and casualty insurance industries. The Parent’s principal operating subsidiaries are American Southern Insurance Company and American Safety Insurance Company (together known as “American Southern”) within the property and casualty insurance industry and Bankers Fidelity Life Insurance Company, Bankers Fidelity Assurance Company and Atlantic Capital Life Assurance Company (together known as “Bankers Fidelity”) within the life and health insurance industry. Each of American Southern and Bankers Fidelity is managed separately based upon the type of products it offers, and is evaluated on its individual performance. The Company’s strategy is to focus on well-defined geographic, demographic and/or product niches within the insurance marketplace. Each of American Southern and Bankers Fidelity operates with relative autonomy, which structure is designed to allow for quick reaction to market opportunities.

The Parent has no significant business operations of its own and relies on fees, dividends and other distributions from its operating subsidiaries as the principal source of cash flow to meet its obligations. Additional information regarding the cash flow and liquidity needs of the Parent can be found in the Liquidity and Capital Resources section of Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Property and Casualty Operations

American Southern comprises the Company’s property and casualty operations and its primary product lines are as follows:

Business Automobile Insurance policies provide bodily injury and/or property damage liability coverage, uninsured motorist coverage and physical damage coverage for commercial accounts.

General Liability Insurance policies cover bodily injury and/or property damage liability for both premises and completed operations exposures for general classes of business.

Surety Bonds are contracts under which one party, the insurance company issuing the surety bond, guarantees to a third party that the primary party will fulfill an obligation in accordance with a contractual agreement. This obligation may involve meeting a contractual commitment, paying a debt or performing certain duties.

American Southern provides tailored business automobile insurance coverage, on a multi-year contract basis, to state governments, local municipalities and other large motor pools and fleets (“block accounts”) that can be specifically rated and underwritten. The size of the block accounts insured by American Southern are generally such that individual class experience can be determined, which allows for customized policy terms and rates. American Southern is licensed to do business in 32 states and the District of Columbia. While the majority of American Southern’s premiums are derived from its automobile lines of business, American Southern also offers inland marine and general liability coverages. Additionally, American Southern directly provides surety bond coverage for subdivision construction, school bus contracts, as well as performance and payment bonds.

The following table summarizes, for the periods indicated, the allocation of American Southern’s net earned premiums from each of its principal product lines:

	Year Ended December 31,	
	2022	2021
	(In thousands)	
Automobile liability	\$ 33,981	\$ 30,453
Automobile physical damage	21,069	22,917
General liability	5,871	5,637
Surety	6,039	5,620
Other lines	3,316	3,355
Total	<u>\$ 70,276</u>	<u>\$ 67,982</u>

Life and Health Operations

Bankers Fidelity comprises the life and health operations of the Company and offers a variety of life and supplemental health products. Products offered by Bankers Fidelity include ordinary life insurance, Medicare supplement and other accident and health insurance products.

Life Insurance products include non-participating, individual and group whole life insurance policies with a variety of riders and options. Policy premiums are dependent upon a number of factors, including issue age, level of coverage and selected riders or options.

Medicare Supplement Insurance includes 8 of the 10 standardized Medicare supplement policies created under the Medicare Improvements for Patients and Providers Act of 2008 (“MIPPA”), which are designed to provide insurance coverage for certain expenses not covered by the Medicare program, including copayments and deductibles.

Other Accident and Health Insurance coverages include several individual and group policies providing for the payment of standard benefits in connection with the treatment of diagnosed cancer and other critical illnesses, as well as a number of other policies providing short-term nursing facility care, accident expense, hospital indemnity and disability coverages.

Health insurance products, primarily Medicare supplement insurance, accounted for 86% of Bankers Fidelity’s net earned premiums in 2022 while life insurance, including both whole and term life insurance policies, accounted for the balance. In terms of the number of policies written in 2022, 58% were health insurance policies and 42% were life insurance policies.

The following table summarizes, for the periods indicated, the allocation of Bankers Fidelity’s net earned premiums from each of its principal product lines:

	Year Ended December 31,	
	2022	2021
	(In thousands)	
Life insurance	\$ 15,805	\$ 10,557
Medicare supplement	86,970	95,314
Other accident and health	12,389	10,363
Total health insurance	99,359	105,677
Total	\$ 115,164	\$ 116,234

Marketing

Property and Casualty Operations

A portion of American Southern’s business is marketed through a small number of specialized, experienced independent agents. American Southern’s agent selection process is actively managed by internal marketing personnel with oversight from management. Senior management carefully reviews all new programs prior to acceptance. Most of American Southern’s agents are paid an up-front commission with the potential for additional commissions by participating in a profit sharing arrangement that is directly linked to the profitability of the underlying business. American Southern also solicits business from governmental entities. As an experienced writer of insurance policies for certain governmental programs, the company actively pursues this market on a direct basis. Much of this business is priced by means of competitive bid situations. As a result, there can be no assurance with respect to the ultimate profitability or ability of the Company to obtain or retain such business at the time of a specific contract renewal.

Life and Health Operations

Bankers Fidelity acquires its clientele through three distribution channels spread across 46 different states and two business divisions, all of which utilize commissioned, independent agents. The three distribution channels include traditional independent agents, brokers typically interested in a specific product of Bankers Fidelity and brokers who focus on sales within the group/employer benefits division, Atlantic American Employee Benefits, all of which are responsible for their own marketing and sales activities. Contracting as independent agents enables Bankers Fidelity to effectively expand or contract its sales force without incurring significant expense.

Bankers Fidelity had approximately 4,337 licensed agents contracted in both the individual and group divisions as of December 31, 2022. During 2022, approximately 476 of these licensed agents wrote policies on behalf of Bankers Fidelity.

Bankers Fidelity’s marketing and distribution strategy revolves around five pillars: Diversification, Differentiation, Quality, Retention and Profitability.

Diversification. Through unique product offerings such as the Vantage Flex Plus®, a hospital indemnity plan, and Vantage Recovery®, short-term care product and a group whole life product featuring a chronic illness rider, the Company is able to offer its distributors an array of products to sell that stand out from the competition. As the Company continues to expand its geographical footprint with agents and products, one of its main objectives is to have a healthy mix of all of its product lines nationwide.

Differentiation. Bankers Fidelity prides itself on the quality of customer service it offers to policyholders and agents. A dedicated agent support team is available to the field to support them on administration, underwriting, sales training, product questions and a plethora of other services which differentiates the Company from other carriers. Additionally, a customer loyalty team is available solely to serve insureds for any of their insurance needs. Bankers Fidelity prides itself on being agile, which we believe differentiates us from larger carriers and helps the Company to quickly execute senior management’s initiatives.

Quality. Bankers Fidelity is focused on being a niche carrier that delivers superior service, quality products and innovative solutions. Sophisticated technology and reporting allows the home office teams to work with the sales force to deliver a tailored experience and phenomenal customer service.

Retention. Through seasonal campaigns and customer outreach, the Company is focused on client retention and servicing its policyholders through all stages in their lives. By providing its agents with an innovative product portfolio, the Company further promotes client retention by empowering its agents to continually meet the needs of our policyholders.

Profitability. In an effort to be sustainable in the marketplace as a long-term partner, senior management is focused on diversification, differentiation, quality and retention to achieve profitability.

Underwriting

Property and Casualty Operations

American Southern specializes in underwriting various risks that are sufficiently large enough to establish separate class experience, relying upon the underwriting expertise of its agents.

During the course of the policy life, extensive use is made of risk management representatives to assist commercial underwriters in identifying and correcting potential loss exposures and to physically inspect new accounts. The underwriting results from each insured are reviewed on an individual basis periodically. If results are below expectations, management takes corrective action, which may include adjusting rates, revising underwriting standards, adjusting commissions paid to agents, and/or altering or declining to renew accounts at expiration.

Life and Health Operations

Bankers Fidelity issues a variety of products that span from the group markets to the individual markets for both life and health insurance. Products offered by Bankers Fidelity include life insurance, typically with small face amounts, Medicare supplement and other accident and health insurance. Bankers Fidelity also provides an array of group products such as accident, cancer, critical illness, hospital indemnity and life insurance that is offered to employers who are looking to provide coverage for their employees and have the related premiums deducted through payroll deductions.

The individual products are underwritten on a non-medical basis using a simplified issue approach by which an application containing a variety of health related questions is submitted. Applications for insurance are reviewed to determine the face amount, age, medical history and any other necessary information. Bankers Fidelity utilizes information obtained directly from the insured, the medical claims data, prescription utilization reports as well as telephone interviews to determine whether an applicant meets the Company's underwriting criteria. Bankers Fidelity may also utilize medical records and investigative services to supplement and substantiate information, as necessary.

The group products are underwritten and assessed at the group level for financial risk. The underwriting will utilize several factors to determine this risk such as the industry, demographics, enrollment strategies, employee access, locations of offices and any regulatory or legislative changes that could impact the decisions. The spread of risk is also reviewed which analyzes the content of the employees within the group which includes the spread of gender, ages, salaries and occupations. This information is used to quote an appropriate benefits package, pricing, waiting periods and rates for the group entity.

Policyholder and Claims Services

The Company believes that prompt, efficient policyholder and claims services are essential to its continued success in marketing its insurance products (see "Competition"). Additionally, the Company believes that its insureds are particularly sensitive to claims processing time and to the accessibility of qualified staff to answer inquiries. Accordingly, the Company's policyholder and claims services seek to offer expeditious disposition of service requests by providing toll-free access for all customers, 24-hour claim reporting services, and direct computer links with some of its largest accounts. The Company also utilizes an automatic call distribution system designed to ensure that inbound calls to customer service support groups are processed efficiently. Operational data generated from this system allows management to further refine ongoing client service programs and service representative training modules.

Property and Casualty Operations

American Southern controls its claims costs by utilizing an in-house staff of claims supervisors to investigate, verify, negotiate and settle claims. Upon notification of an occurrence purportedly giving rise to a claim, a claim file is established. The claims department then conducts a preliminary investigation, determines whether an insurable event has occurred and, if so, updates the file for the findings and any required reserve adjustments. Independent adjusters and appraisers are frequently utilized to service claims which require on-site inspections.

Life and Health Operations

The majority of life and health claims are filed electronically while insureds also have the ability to download claims forms and file directly. Insureds may also obtain claim forms by calling the customer service group or through Bankers Fidelity's website. All of these claims are entered into the system immediately upon receipt and put into a pending status until the claim can be fully processed. To shorten claim processing time, a letter detailing all supporting documents that are required to complete a claim for a particular policy is sent to the customer along with the correct claim form. Properly documented claims are generally paid within five business days of receipt. With regard to Medicare supplement policies, the claim is either directly billed to Bankers Fidelity by the provider or sent electronically through a Medicare clearing house.

Reserves

Reserves are set by line of business within each of the subsidiaries. At December 31, 2022, approximately 72% of the losses and claims reserves related to property and casualty and approximately 28% related to life and health. The Company's property and casualty operations incur losses which may take extended periods of time to evaluate and settle. Issues with respect to legal liability, actual loss quantification, legal discovery and ultimate subrogation, among other factors, may influence the initial and subsequent estimates of loss. In the property and casualty operations, the Company's general practice is to reserve at the higher end of the determined reasonable range of loss if no other value within the range is determined to be more probable. The Company's life and health operations generally incur losses which are more readily quantified. Medical claims received are recorded in case reserves based on contractual terms using the submitted billings as a basis for determination. Life claims are recorded based on contract value at the time of notification to the Company; offset by policy reserves related to such contracts previously established. Individual case reserves are established by a claims processor on each individual claim and are periodically reviewed and adjusted as new information becomes known during the course of handling a claim. Regular internal periodic reviews are also performed by management to ensure that loss reserves are established and revised timely relative to the receipt of new or additional information. Lines of business for which loss data (e.g. paid losses and case reserves) emerge over a long period of time are referred to as long-tail lines of business. Lines of business for which loss data emerge more quickly are referred to as short-tail lines of business. The Company's long-tail line of business generally consists of its general liability coverage while the short-tail lines of business generally consist of property and automobile coverages.

The Company's actuaries regularly review reserves for both current and prior accident years using the most current claims data. These reviews incorporate a variety of actuarial methods (discussed in Critical Accounting Policies) and judgments and involve a disciplined analysis. For most lines of business, certain actuarial methods and specific assumptions are deemed more appropriate based on the current circumstances affecting that line of business. These selections incorporate input from claims personnel and operating management on reported loss cost trends and other factors that could affect the reserve estimates.

The Company establishes reserves for claims based upon: (a) management's estimate of ultimate liability and claims adjusters' evaluations of unpaid claims reported prior to the close of the accounting period, (b) estimates of incurred but not reported ("IBNR") claims based on past experience, and (c) estimates of losses and loss adjustment expense ("LAE"). The estimated liability is periodically reviewed and updated, and changes to the estimated liability are recorded in the statement of operations in the period in which such changes become known.

For long-tail lines of business, the emergence of paid losses and case reserves is less credible in the early periods, and accordingly may not be indicative of ultimate losses. For these lines, methods which incorporate a development pattern assumption are given less weight in calculating IBNR for the early periods of loss emergence because such a low percentage of ultimate losses are reported in that time frame. Accordingly, for any given accident year, the rate at which losses on long-tail lines of business emerge in the early periods is generally not as reliable an indication of ultimate losses as it would be for shorter-tail lines of business. The estimation of reserves for these lines of business in the early periods of loss emergence is therefore largely influenced by statistical analyses and application of prior accident years' loss ratios, after considering changes to earned pricing, loss costs, mix of business, ceded reinsurance and other factors that are expected to affect the estimated ultimate losses. For later periods of loss emergence, methods which incorporate a development pattern assumption are given more weight in estimating ultimate losses. For short-tail lines of business, the emergence of paid loss and case reserves is more credible in the early periods and is more likely to be indicative of ultimate losses. The method used to set reserves for these lines of business is based upon utilization of a historical development pattern for reported losses. IBNR reserves for the current year are set as the difference between the estimated fully developed ultimate losses for each year, less the established, related case reserves and cumulative related payments. IBNR reserves for prior accident years are similarly determined, again relying on an indicated, historical development pattern for reported losses.

Based on the results of regular reserve estimate reviews, the Company determines the appropriate reserve adjustment, if any, to record in each period. If necessary, recorded reserve estimates are changed after consideration of numerous factors, including, but not limited to, the magnitude of the difference between the actuarial indication and the recorded reserves, improvement or deterioration of actuarial indication in the period, the maturity of the accident year, trends observed over the recent past and the level of volatility within a particular line of business. In general, changes are made more quickly to recognize changes in estimates to ultimate losses in mature accident years and less volatile lines of business.

The Company's policy is to record reserves for losses and claims in amounts that represent actuarial best estimates of ultimate values. Actuarial best estimates do not necessarily represent the midpoint value determined using the various actuarial methods; however, such estimates will fall between the estimated low and high end reserve values. The range of estimates developed in connection with the December 31, 2022 actuarial review indicated that reserves could be as much as 10.1% lower or as much as 10.0% higher. In the opinion of management, recorded reserves represent the best estimate of outstanding losses, although significant judgments are made in the derivation of reserve estimates and revisions to such estimates are expected to be made in future periods. Any such revisions could be material, and may materially adversely affect the Company's financial condition and results of operations in any future period.

Property and Casualty Operations

American Southern maintains loss reserves representing estimates of amounts necessary for payment of losses and LAE, which are not discounted. IBNR reserves are also maintained for future development. These loss reserves are estimates, based on known facts and circumstances at a given date, of amounts the Company expects to pay on incurred claims. All balances are reviewed periodically by the Company's independent consulting actuary. Reserves for LAE are intended to cover the ultimate costs of settling claims, including investigation and defense of any lawsuits resulting from such claims. Loss reserves for reported claims are based on a case-by-case evaluation of the type of claim involved, the circumstances surrounding the claim, and the policy provisions relating to the type of loss along with anticipated future development. The LAE for claims reported and claims not reported is based on historical statistical data and anticipated future development. Inflation and other factors which may affect claim payments are implicitly reflected in the reserving process through analysis and consideration of cost trends and reviews of historical reserve results.

Estimating case reserves and ultimate losses involves various considerations which differ according to the line of business. In addition, changes in legislative and regulatory environments may impact loss estimates. General liability claims may have a long pattern of loss emergence. Given the broad nature of potential general liability coverages, investigative time periods may be extended and questions of coverage may exist. Such uncertainties create greater imprecision in estimating required levels of loss reserves. The property and automobile lines of business generally have less variable reserve estimates than other lines. This is largely due to the coverages having relatively shorter periods of loss emergence. Estimates, however, can still vary due to a number of factors, including interpretations of frequency and severity trends. Severity trends can be impacted by changes in internal claim handling and reserving practices in addition to changes in the external environment. These changes in claim practices increase the uncertainty in the interpretation of case reserve data, which increases the uncertainty in recorded reserve levels.

Life and Health Operations

Bankers Fidelity establishes reserves for future policy benefits to meet projected obligations under policies that are in force as of the statement date. These reserves are calculated to satisfy policy and contract obligations as they are projected to come due. Reserves for insurance policies are calculated using assumptions for interest rates, mortality rates, disablement rates, and lapse rates. These assumptions vary by the product type, the year the policy was issued, and other demographic information about the policyholder. Variations in assumptions may be made from one issue year to another to reflect actual experience. Assumptions that deviate significantly from actual future experience, or actual results that differ significantly from our estimates, could have a materially adverse effect on our liquidity, results of operations, or financial condition.

See Note 6 of Notes to Consolidated Financial Statements for more information on insurance reserves and policyholder funds.

Reinsurance

The Company's insurance subsidiaries from time to time purchase reinsurance from unaffiliated insurers and reinsurers to reduce their potential liability on individual risks and to protect against catastrophic losses. In a reinsurance transaction, an insurance company transfers, or "cedes," a portion or all of its exposure on insurance policies to a reinsurer. The reinsurer assumes the exposure in return for a portion of the premiums. The ceding of insurance does not legally discharge the insurer from primary liability for the full amount of the policies written by it, and the ceding company will incur a loss if the reinsurer fails to meet its obligations under the reinsurance agreement.

Property and Casualty Operations

American Southern's basic reinsurance treaties generally cover all claims in excess of specified per occurrence limitations. Limits per occurrence within the reinsurance treaties are as follows: Inland marine and commercial automobile physical damage - \$225,000 excess of \$125,000 retention; and automobile liability and general liability - excess coverage of \$2.0 million less retentions that may vary from \$100,000 to \$500,000 depending on the account. American Southern maintains a property catastrophe treaty with a \$5.5 million limit excess of \$500,000 retention. American Southern also issues individual surety bonds with face amounts generally up to \$1.5 million, and limited to \$5.0 million in aggregate per account, that are not reinsured.

Life and Health Operations

Bankers Fidelity has entered into reinsurance contracts ceding the excess of its life retention. Maximum retention by Bankers Fidelity on any one individual in the case of life insurance policies is \$200,000. At December 31, 2022, \$9.6 million of the \$670.6 million of life insurance in force at Bankers Fidelity was reinsured under a mix of coinsurance and yearly renewable term agreements. Certain prior year reinsurance agreements also remain in force although they no longer provide reinsurance for new business.

Bankers Fidelity has also entered into a reinsurance contract ceding excess new Medicare supplement business to General Re Life Corporation. Ceding thresholds are set annually. During 2022, the liability of the reinsurer was 50% of all new Medicare supplement business issued by the Company on amounts up to a maximum retention of \$15.0 million of annualized premium. Accordingly, \$1.0 million of the Company's \$2.0 million of new annualized Medicare supplement premium was ceded.

Competition

Competition for insurance products is based on many factors including premiums charged, terms and conditions of coverage, customer service, financial ratings assigned by independent rating agencies, claims handling, consumer recognition and reputation, perceived financial strength and the experience of the organization in the line of business being written.

Property and Casualty Operations

The businesses in which American Southern engages are highly competitive. The principal areas of competition are pricing and service. Many competing property and casualty companies have been in business longer than American Southern, offer more diversified lines of insurance and have substantially greater financial resources. Management believes, however, that the policies it sells are competitive with those providing similar benefits offered by other insurers doing business in the states in which American Southern operates. American Southern strives to develop strong relationships with its agents and, consequently, believes it is well positioned for new opportunities and programs with those agents.

Life and Health Operations

The life and health insurance business remains highly competitive and includes a large number of insurance companies, many of which are new entrants to the business of providing Medicare supplement and other accident and health insurance products. Bankers Fidelity has established itself as a trusted carrier of choice for its customers providing quality and sustainability for over 65 years.

In order to compete, Bankers Fidelity actively seeks opportunities in niche markets, developing long-term relationships with a select number of independent marketing organizations. Additionally, Bankers Fidelity actively promotes Atlantic American Employee Benefits, the group benefits division, as well as selective association partnerships. It competes with other insurers to attract and retain the allegiance of its independent agents through commission and sales incentive arrangements, accessibility and marketing assistance, lead programs, reputation and market expertise. Bankers Fidelity successfully competes in its chosen markets by establishing relationships with independent agents and providing proprietary marketing initiatives as well as providing outstanding service to policyholders.

Ratings

Ratings are important measures within the insurance industry, and higher ratings are expected to have a favorable impact on the ability of a company to compete in the marketplace. Ratings of insurance companies are not designed for investors and do not constitute recommendations to buy, sell, or hold any security.

Each year A.M. Best Company, Inc. ("A.M. Best") publishes Best's Insurance Reports, which includes assessments and ratings of all insurance companies. A.M. Best's financial strength ratings, which may be revised or revoked at any time, follow a graduated scale of rating categories and notches ranging from A++ (Superior) to F (in liquidation). A.M. Best's ratings are based on a detailed analysis of the statutory financial condition and operations of an insurance company compared to the industry in general.

American Southern. American Southern Insurance Company and its wholly-owned subsidiary, American Safety Insurance Company, are each, as of the date of this report, rated "A" (Excellent) by A.M. Best.

Bankers Fidelity. Bankers Fidelity Life Insurance Company and its wholly-owned subsidiary, Bankers Fidelity Assurance Company, are each, as of the date of this report, rated "A-" (Excellent) by A.M. Best.

Regulation

Like all domestic insurance companies, the Company's insurance subsidiaries are subject to regulation and supervision in the jurisdictions in which they do business. Statutes typically delegate regulatory, supervisory, and administrative powers to state insurance commissioners. The method of such regulation varies, but regulation relates generally to the licensing of insurers and their agents, the nature of and limitations on investments, approval of policy forms, reserve requirements, the standards of solvency to be met and maintained, deposits of securities for the benefit of policyholders, and periodic examinations of insurers and trade practices, among other things. The Company's products generally are subject to rate regulation by state insurance commissions, which require that certain minimum loss ratios be maintained. Certain states also have insurance holding company laws which require registration and periodic reporting by insurance companies controlled by other corporations licensed to transact business within their respective jurisdictions. The Company's insurance subsidiaries are subject to such legislation and are registered as controlled insurers in those jurisdictions in which such registration is required. Such laws vary from state to state, but typically require periodic disclosure concerning the corporation which controls the registered insurers and all subsidiaries of such corporations, as well as prior notice to, or approval by, the state insurance commissioners of intercorporate transfers of assets (including payments of dividends by the insurance subsidiaries in excess of specified amounts) within the holding company system. The Company believes it is in compliance with all such requirements.

Most states require that rate schedules and other information be filed with the state's insurance regulatory authority, either directly or through a ratings organization with which the insurer is affiliated. The regulatory authority may disapprove a rate filing if it determines that the rates are inadequate, excessive, or discriminatory. The Company has historically experienced no significant regulatory resistance to its applications for rate adjustments; however, the Company cannot provide any assurance that it will not receive any objections to any applications in the future.

A state may require that acceptable securities be deposited for the protection either of policyholders located in those states or of all policyholders. As of December 31, 2022, the Company was in compliance with all such requirements, and securities with an amortized cost of \$12.3 million were on deposit either directly with various state authorities or with third parties pursuant to various custodial agreements on behalf of the Company's insurance subsidiaries.

Virtually all of the states in which the Company's insurance subsidiaries are licensed to transact business require participation in their respective guaranty funds designed to cover claims against insolvent insurers. Insurers authorized to transact business in these jurisdictions are generally subject to assessments of up to 4% of annual direct premiums written in that jurisdiction to pay such claims, if any. The likelihood and amount of any future assessments cannot be estimated until an insolvency has occurred.

NAIC Ratios

The National Association of Insurance Commissioners (the "NAIC") was established to, among other things, provide guidelines to assess the financial strength of insurance companies for state regulatory purposes. The NAIC conducts annual reviews of the financial data of insurance companies primarily through the application of financial ratios prepared on a statutory basis. Annual statements are required to be submitted to state insurance departments to assist them in monitoring insurance companies in their state and to allow such states to determine a desirable range for each such ratio with which companies should comply.

The NAIC developed the Insurance Regulatory Information System ("IRIS") to help state regulators identify companies that may require regulatory attention. Financial examiners review annual financial statements and the results of key financial ratios based on year-end data with the goal of identifying insurers that appear to require immediate regulatory attention. Each ratio has an established "usual range" of results. A ratio result falling outside the usual range, however, is not necessarily considered adverse; rather, unusual values are used as part of the regulatory early monitoring system. Furthermore, in some years, it may not be unusual for financially sound companies to have several ratios with results outside the usual ranges. Generally, an insurance company may become subject to regulatory scrutiny or, depending on the company's financial condition, regulatory action if certain of its key IRIS ratios fall outside the usual ranges and the insurer's financial condition is trending downward.

For the year ended December 31, 2022, Bankers Fidelity Assurance Company had three ratios outside the usual range, primarily as a result of net loss for the year, certain surplus ratios and Non-admitted Assets to Admitted Assets. The net loss at Bankers Fidelity Assurance Company is primarily related to federal income taxes incurred which resulted in a corresponding decrease in surplus levels for the year as well as a growing Deferred Tax Asset which is a Non-admitted. Atlantic Capital Life Assurance Company had one ratio outside the usual range primarily due to the fact that the Change in Asset Mix was automatically considered unusual because the prior year value was zero, as the company was not in existence during the prior year. Bankers Fidelity Life Insurance Company, American Southern Insurance Company and American Safety Insurance Company had no IRIS ratios outside the usual ranges. Management does not anticipate regulatory action as a result of the 2022 IRIS ratio results for the insurance subsidiaries.

Risk-Based Capital

Risk-based capital (“RBC”) is a metric used by ratings agencies and regulators as an early warning tool to identify weakly capitalized companies for the purpose of initiating further regulatory action. The RBC calculation determines the amount of adjusted capital needed by a company to avoid regulatory action. “Authorized Control Level Risk-Based Capital” (“ACL”) is calculated, and if a company’s adjusted capital is 200% or lower than ACL, it is subject to regulatory action. At December 31, 2022, the Company’s insurance subsidiaries’ RBC levels exceeded the required regulatory levels.

Information Technology and Cybersecurity

The Company’s operations rely on the secure processing, storage, and transmission of confidential and personal identifiable information within various technology platforms. Cybersecurity is a high priority and the Company has made significant investments in order to prevent, detect, and respond to cyber threats. The Company continues to enhance its intrusion protection and detection technology, infrastructure and application firewalls, and network monitoring. The Company has also installed advanced endpoint threat protection technology and implemented a mandatory security awareness training program for all employees. This training is reinforced through periodic simulated phishing tests.

The Company uses a sophisticated backup and recovery methodology that supports the replication of data across multiple secure data centers. It also includes a comprehensive disaster recovery plan that is continually tested to help enable us to resume business in the event of a disaster. The Company’s technology environment is managed by an experienced team of professionals who follow an extensive set of policies and procedures related to data security. Through recurring internal and external audits, controls are regularly reviewed, tested, and enhanced to promote best practices. The Company has augmented the information security program through a partnership with a leading global cybersecurity service provider to review and implement additional services such as Security Event Monitoring, Advanced Endpoint Threat Detection, Incident Management Retainer Services, and Strategic Advisory Services focused on Chief Information Security Officer (CISO) duties such as counter-threat intelligence.

The information security program also includes a cybersecurity Incident Response Plan (“IRP”) that was established to help protect the integrity, availability and confidentiality of information, prevent loss of service, and comply with legal requirements. The IRP specifies the process for identifying and reporting an incident, initial investigation, risk classification, documentation and communication of incidents, responder procedures, incident reporting, and ongoing training. Additionally, the IRP specifies the notification to directors, officers, and other corporate insiders to not trade the Company’s securities while in possession of potentially material nonpublic information about the incident.

The Audit Committee of the Board of Directors has oversight of the Company’s information security program. The Company’s senior officers, including its Chief Information Officer, are responsible for the operation of the information security program and regularly communicate with the Audit Committee on the state of the program.

The Company also maintains dedicated cyber liability insurance for breach event costs, including: post breach event remediation costs; cyber crime coverage (including financial fraud, telecommunications fraud, and phishing attacks); and coverage for system failure, bricking loss, and physical damage. The policy also provides coverage for lost revenue due to a damaged reputation from a cyber breach.

Investments

Investment income represents a significant portion of the Company’s operating and total income. Insurance company investments are subject to state insurance laws and regulations which limit the concentration and types of investments. The following table provides information on the Company’s investments as of the dates indicated.

	December 31,			
	2022		2021	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 44,412	19.4%	\$ 50,298	17.7%
States, municipalities and political subdivisions	9,187	4.1	11,644	4.2
Public utilities	10,284	4.5	13,952	4.9
All other corporate bonds	144,623	63.2	184,842	65.2
Redeemable preferred stock	223	0.1	250	0.1
Total fixed maturities ⁽¹⁾	208,729	91.3	260,986	92.1
Equity securities ⁽²⁾	11,562	5.0	19,124	6.7
Other invested assets ⁽³⁾	5,386	2.4	198	0.1
Policy loans ⁽⁴⁾	1,759	0.8	1,858	0.7
Real estate	38	0.0	38	0.0
Investments in unconsolidated trusts	1,238	0.5	1,238	0.4
Total investments	\$ 228,712	100.0%	\$ 283,442	100.0%

- (1) Fixed maturities are carried on the balance sheet at estimated fair value. Certain fixed maturities do not have publicly quoted prices, and are carried at estimated fair value as determined by management. Total amortized cost of fixed maturities was \$236.8 million as of December 31, 2022 and \$238.6 million as of December 31, 2021.
- (2) Equity securities are carried on the balance sheet at estimated fair value. Total cost of equity securities was \$4.9 million as of December 31, 2022 and \$4.9 million as of December 31, 2021.
- (3) Other invested assets are accounted for using the equity method. Total cost of other invested assets was \$5.6 million as of December 31, 2022 and \$0.7 million as of December 31, 2021.
- (4) Policy loans are valued at unpaid principal balances.

Estimated fair values are determined as discussed in Note 1 of Notes to Consolidated Financial Statements.

Results of the Company's investment portfolio for periods shown were as follows:

	Year Ended December 31,	
	2022	2021
	(Dollars in thousands)	
Average investments ⁽¹⁾	\$ 270,636	\$ 260,240
Net investment income	9,932	8,528
Average yield on investments	3.7%	3.3%
Realized investment gains, net	30	4,903

- (1) Calculated as the average of cash and investment balances (at amortized cost) at the beginning of the year and at the end of each of the succeeding four quarters.

The Company engages a global investment management firm serving the insurance industry to manage the Company's investment portfolios. Management's recent investment strategy has been a continued focus on quality and diversification, while improving the overall risk versus return profile of the portfolio.

Human Capital

The Company and its subsidiaries employed 142 people at December 31, 2022. Of the 142 people, 141 were full-time. We believe that our ability to attract and retain highly motivated and skilled employees with diverse backgrounds and experiences is critical to our continued success. We also believe the structure of our compensation program is aligned with the interests of our shareholders and serves to reward the performance of our employees. We monitor and evaluate the effectiveness of our human capital management efforts by seeking formal and informal feedback from our employees, including periodic surveys to obtain opinions on key topics.

We sponsor health and wellness programs in an effort to promote a healthier employee base. We also offer competitive health and wellbeing benefits to include health, dental, vision, health and flexible savings accounts, disability, life, supplemental and telemedicine. An Employee Assistance Program ("EAP") is provided to all full-time employees and their family members at no cost. The EAP offers confidential telephonic counseling, referral services, legal and financial services and additional tools that offer support and solutions. Additionally, we offer a 401(k) retirement savings plan with an employer match as well as an annual Safe Harbor Non-Elective contribution.

We strive to provide a work environment that encourages work/life balance. Options depend on job responsibilities and may include flexible work schedules, paid time off, paid holidays and part-time employment.

We offer tuition reimbursement along with budgeted professional development opportunities in order to foster professional growth and to increase skillsets.

Financial Information by Industry Segment

American Southern and Bankers Fidelity each operate with relative autonomy and each company is evaluated on its individual performance. American Southern operates in the property and casualty insurance market, while Bankers Fidelity operates in the life and health insurance market. Each segment derives revenue from the collection of premiums, as well as from investment income. Substantially all revenue other than that in the corporate and other segment is from external sources. For more information on segments, see Note 16 of Notes to Consolidated Financial Statements.

Available Information

The Company files annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports and other information with the Securities and Exchange Commission (the “SEC”). The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, including the Company. In addition, as soon as reasonably practicable after such materials are filed with or furnished to the SEC by the Company, the Company makes copies available to the public, free of charge, on or through its web site at www.atlam.com. Neither the Company’s website, nor the information appearing on the website, is included, incorporated into, or a part of, this report.

Executive Officers of the Registrant

The table and information below set forth, for each current executive officer of the Company, his name, age (as of June 1, 2023), positions with the Company and business experience for the past five years, as well as any prior service to the Company.

Name	Age	Positions with the Company	Director or Officer Since
Hilton H. Howell, Jr.	61	Chairman of the Board, President & CEO	1992
J. Ross Franklin	45	Vice President, CFO and Corporate Secretary	2017

Officers are elected annually and serve at the discretion of the board of directors.

Mr. Howell has been President and Chief Executive Officer of the Company since May 1995, and prior thereto served as Executive Vice President of the Company from October 1992 to May 1995. He has been a Director of the Company since October 1992 and effective February 24, 2009, began serving as Chairman of the board of directors. He is also Executive Chairman and Chief Executive Officer of Gray Television, Inc.

Mr. Franklin has been Vice President, Chief Financial Officer and Corporate Secretary of the Company since November 2017, and prior thereto served as Interim Chief Financial Officer from August 2017 to November 2017. Since 2000 he has held various roles of increasing responsibility with Atlantic American and its subsidiaries, previously serving as Vice President, Accounting and Treasurer of Bankers Fidelity since 2009.

Item 1A. Risk Factors

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K (a “smaller reporting company”), we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the information required by this Item.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Leased Properties. The Company leases space for its principal offices and for some of its insurance operations in an office building located in Atlanta, Georgia under a lease which continues until either party provides written notice of cancellation at least twelve months in advance of the actual termination date. The lease, which commenced on November 1, 2007, provides for rent adjustments on every fifth anniversary of the commencement date. Under the current terms of the lease, the Company occupies approximately 49,586 square feet of office space. In December 2022, Delta Life Insurance Company, the owner of the building, transferred title to the building to 4370 Peachtree LLC. Each of Delta Life Insurance Company and 4370 Peachtree LLC is controlled by an affiliate of the Company.

American Southern leases space for its office in a building located in Atlanta, Georgia. The lease term expires September 30, 2026. Under the terms of the lease, American Southern occupies approximately 17,014 square feet.

The Company believes that its current properties are in good condition, and are sufficient for the operations of its business.

Item 3. Legal Proceedings

From time to time, the Company and its subsidiaries are, and expect to continue to be, involved in various claims and lawsuits arising in the ordinary course of business, both as a liability insurer defending third-party claims brought against insureds and as an insurer defending coverage claims brought against it, and in various regulatory proceedings in the states in which we do business. The Company accounts for such exposures through the establishment of loss and loss adjustment expense reserves and accrued expenses. We currently do not expect that the ultimate liability, if any, with respect to such ordinary-course claims litigation or regulatory proceedings, after consideration of provisions made for probable losses and costs of defense, will be material to the Company's consolidated financial condition, although the results of such matters could be material to the consolidated results of operations for any given period.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The Company’s common stock is listed on the Nasdaq Global Market (Symbol: AAME). As of June 12, 2023, there were 4,467 shareholders of record.

From time to time, the Company’s board of directors may declare dividends on the Company’s common stock. Payment of any dividends will be at the discretion of the Company’s board of directors and will depend upon the financial condition, capital requirements, and earnings of the Company, as well as any restrictions contained in any agreements by which the Company is bound and other factors as the board of directors may deem relevant. The Company’s primary recurring source of cash for the payment of dividends is dividends from its subsidiaries; although as of December 31, 2022, the Parent held unrestricted cash and investment balances of approximately \$5.0 million. Under the insurance code of the state in which each insurance subsidiary is domiciled, dividend payments to the Parent by its insurance subsidiaries are subject to certain limitations, including prior notice to, or approval by, the state insurance commissioners if such dividends are in excess of specified amounts. In 2022, dividend payments to the Parent by the insurance subsidiaries in excess of \$8.7 million would require prior approval. Pending the filing of this Form 10-K, the Company has not declared and paid an annual dividend during 2023.

Issuer Purchases of Equity Securities

On October 31, 2016, the Board of Directors of the Company approved a plan that allows for the repurchase of up to 750,000 shares of the Company’s common stock (the “Repurchase Plan”) on the open market or in privately negotiated transactions, as determined by an authorized officer of the Company. Any such repurchases can be made from time to time in accordance with applicable securities laws and other requirements.

Other than pursuant to the Repurchase Plan, no purchases of common stock of the Company were made by or on behalf of the Company during the periods described below.

The table below sets forth information regarding repurchases by the Company of shares of its common stock on a monthly basis during the three month period ended December 31, 2022.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
October 1 – October 31, 2022	—	\$ —	—	325,129
November 1 – November 30, 2022	—	—	—	325,129
December 1 – December 31, 2022	—	—	—	325,129
Total	—	\$ —	—	

Stock Performance Graph

As a smaller reporting company, we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the information required by this Item.

Item 6. Reserved

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following is management’s discussion and analysis of the financial condition and results of operations of Atlantic American Corporation (“Atlantic American” or the “Parent”) and its subsidiaries (collectively with the Parent, the “Company”) for the years ended December 31, 2022 and 2021. This discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere herein.

Atlantic American is an insurance holding company whose operations are conducted primarily through its insurance subsidiaries: American Southern Insurance Company and American Safety Insurance Company (together known as “American Southern”) in the property and casualty insurance industry, and Bankers Fidelity Life Insurance Company, Bankers Fidelity Assurance Company and Atlantic Capital Life Assurance Company (together known as “Bankers Fidelity”) in the life and health insurance industry. Each operating company is managed separately, offers different products and is evaluated on its individual performance.

Critical Accounting Policies

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and, in management’s belief, conform to general practices within the insurance industry. The following is an explanation of the Company’s accounting policies and the resultant estimates considered most significant by management. These accounting policies inherently require significant judgment and assumptions and actual operating results could differ significantly from management’s estimates determined using these policies. Atlantic American does not expect that changes in the estimates determined using these policies will have a material effect on the Company’s financial condition or liquidity, although changes could have a material effect on its consolidated results of operations.

Cash and investments comprised 70% of the Company’s total assets at December 31, 2022. Substantially all of the Company’s investments are in bonds and common and preferred stocks, the values of which are subject to significant market fluctuations. The Company carries all fixed maturities, which includes bonds and redeemable preferred stocks, as available for sale, and equity securities, which includes common and non-redeemable preferred stocks, at their estimated fair values. Due to market and other considerations, the value of a fixed maturity investment may decline to a value below its amortized purchase price and remain at such value for an extended period of time. When a fixed maturity investment’s indicated fair value has declined below its cost basis for a period of time, the Company evaluates such investment for an other than temporary impairment. The evaluation for an other than temporary impairment is a quantitative and qualitative process, which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. Potential risks and uncertainties include, among other things, changes in general economic conditions, an issuer’s financial condition or near term recovery prospects and the effects of changes in interest rates. In evaluating a potential impairment, the Company considers, among other factors, management’s intent and ability to hold the securities until price recovery, the nature of the investment and the expectation of prospects for the issuer and its industry, the status of an issuer’s continued satisfaction of its obligations in accordance with their contractual terms, and management’s expectation as to the issuer’s ability and intent to continue to do so, as well as ratings actions that may affect the issuer’s credit status. If an other than temporary impairment is deemed to exist, then the Company will write down the amortized cost basis of the investment to its estimated fair value. While any such write down does not impact the reported value of the investment in the Company’s balance sheet, it is reflected as a realized investment loss in the Company’s net income or other comprehensive income, depending upon the nature of the loss, in the period incurred.

The Company determines the fair values of certain financial instruments based on the fair value hierarchy established in Accounting Standards Codification (“ASC”) 820-10-20, *Fair Value Measurements and Disclosures* (“ASC 820-10-20”). The fair values of fixed maturities and equity securities are largely determined by nationally quoted market prices, when available, or independent broker quotations. See Note 2 and Note 3 of Notes to Consolidated Financial Statements with respect to assets and liabilities carried at fair value and information about the inputs used to value those financial instruments, by hierarchy level, in accordance with ASC 820-10-20.

Future policy benefits comprised 32% of the Company’s total liabilities at December 31, 2022. These liabilities relate primarily to life insurance products and are based upon assumed future investment yields, mortality rates, and lapse rates after giving effect to possible risks of adverse deviation. The assumed mortality and lapse rates are based upon the Company’s experience modified as necessary to reflect anticipated trends and are generally established at contract inception. If actual results differ from the initial assumptions, the amount of the Company’s recorded liability could require adjustment.

Unpaid loss and loss adjustment expenses comprised 33% of the Company's total liabilities at December 31, 2022. This liability includes estimates for: (1) unpaid losses on claims reported prior to December 31, 2022, (2) future development on those reported claims, (3) unpaid ultimate losses on claims incurred prior to December 31, 2022 but not yet reported and (4) unpaid loss adjustment expenses for reported and unreported claims incurred prior to December 31, 2022. Quantification of loss estimates for each of these components involves a significant degree of judgment and estimates may vary, materially, from period to period. Estimated unpaid losses on reported claims are developed based on historical experience with similar claims by the Company. Development on reported claims, estimates of unpaid ultimate losses on claims incurred prior to December 31, 2022 but not yet reported, and estimates of unpaid loss adjustment expenses are developed based on the Company's historical experience, using actuarial methods to assist in the analysis. The Company's actuaries develop ranges of estimated development on reported and unreported claims as well as loss adjustment expenses using various methods, including the paid-loss development method, the reported-loss development method, the paid Bornhuetter-Ferguson method and the reported Bornhuetter-Ferguson method. Any single method used to estimate ultimate losses has inherent advantages and disadvantages due to the trends and changes affecting the business environment and the Company's administrative policies. Further, external factors, such as legislative changes, medical cost inflation, and others may directly or indirectly impact the relative adequacy of liabilities for unpaid losses and loss adjustment expenses. The Company's approach is to select an estimate of ultimate losses based on comparing results of a variety of reserving methods, as opposed to total reliance on any single method. Unpaid loss and loss adjustment expenses are reviewed periodically for significant lines of business, and when current results differ from the original assumptions used to develop such estimates, the amount of the Company's recorded liability for unpaid loss and loss adjustment expenses is adjusted. In the event the Company's actual reported losses in any period are materially in excess of the previously estimated amounts, such losses, to the extent reinsurance coverage does not exist, could have a material adverse effect on the Company's results of operations.

Receivables are amounts due from reinsurers, insureds and agents, and any sales of investment securities not yet settled, and comprised 11% of the Company's total assets at December 31, 2022. Insured and agent balances are evaluated periodically for collectibility. Annually, the Company performs an analysis of the creditworthiness of the reinsurers with whom the Company contracts using various data sources. Failure of reinsurers to meet their obligations due to insolvencies, disputes or otherwise could result in uncollectible amounts and losses to the Company. Allowances for uncollectible amounts are established, as and when a loss has been determined probable, against the related receivable. Losses are recognized by the Company when determined on a specific account basis and a general provision for loss is made based on the Company's historical experience.

Deferred acquisition costs comprised 12% of the Company's total assets at December 31, 2022. Deferred acquisition costs are commissions, premium taxes, and other incremental direct costs of contract acquisition that results directly from and are essential to the contract transaction(s) and would not have been incurred by the Company had the contract transaction(s) not occurred. The deferred amounts are recorded as an asset on the balance sheet and amortized to expense in a systematic manner. Traditional life insurance and long-duration health insurance deferred policy acquisition costs are amortized over the estimated premium-paying period of the related policies using assumptions consistent with those used in computing the related liability for policy benefit reserves. Deferred acquisition costs for property and casualty insurance and short-duration health insurance are amortized over the effective period of the related insurance policies. Deferred policy acquisition costs are expensed when such costs are deemed not to be recoverable from future premiums (for traditional life and long-duration health insurance) and from the related unearned premiums and investment income (for property and casualty and short-duration health insurance). Assessments of recoverability for property and casualty and short-duration health insurance are extremely sensitive to the estimates of a subsequent year's projected losses related to the unearned premiums. Projected loss estimates for a current block of business for which unearned premiums remain to be earned may vary significantly from the indicated losses incurred in any previous calendar year.

Deferred income taxes reflect the effect of temporary differences between assets and liabilities that are recognized for financial reporting purposes and the amounts that are recognized for tax purposes. These deferred income taxes are measured by applying currently enacted tax laws and rates. Valuation allowances are recognized to reduce the deferred tax asset to the amount that is deemed more likely than not to be realized. In assessing the likelihood of realization, management considers estimates of future taxable income and tax planning strategies.

Share-based transactions include employee and director *share-based compensation awards*. The Company determines a grant date fair value based on the price of our publicly-traded common stock and recognize the related compensation expense, adjusted for actual forfeitures, in the consolidated statement of operations on a straight-line basis over the requisite service period for the entire award. For non-employee share-based compensation awards, the Company recognizes the impact during the period of performance, and the fair value of the award is measured as of the date performance is complete, which is the vesting date.

Refer to Note 1 of Notes to Consolidated Financial Statements for details regarding the Company's significant accounting policies.

Overall Corporate Results

	Year Ended December 31,	
	2022	2021
	(In thousands)	
Revenue		
Property and Casualty:		
American Southern	\$ 73,949	\$ 73,868
Life and Health:		
Bankers Fidelity	114,015	125,702
Corporate and Other	(113)	(16)
Total revenue	\$ 187,851	\$ 199,554
Income before income taxes		
Property and Casualty:		
American Southern	\$ 6,613	\$ 9,292
Life and Health:		
Bankers Fidelity	3,812	3,726
Corporate and Other	(8,329)	(7,716)
Income before income taxes	\$ 2,096	\$ 5,302
Net income	\$ 1,525	\$ 4,281

Management also considers and evaluates performance by analyzing the non-GAAP measure operating income or loss, and believes it is a useful metric for investors, potential investors, securities analysts and others because it isolates the “core” operating results of the Company before considering certain items that are either beyond the control of management (such as income tax expense, which is subject to timing, regulatory and rate changes depending on the timing of the associated revenues and expenses) or are not expected to regularly impact the Company’s operational results (such as any realized or unrealized investment gains or losses, which are not a part of the Company’s primary operations and are, to a limited extent, subject to discretion in terms of timing of realization).

A reconciliation of net income, the most directly comparable GAAP measure, to operating income (loss) is as follows:

	Year Ended December 31,	
	2022	2021
	(In thousands)	
Reconciliation of Non-GAAP Financial Measure		
Net income	\$ 1,525	\$ 4,281
Income tax expense	571	1,021
Realized investment gains, net	(30)	(4,903)
Unrealized (gains) losses on equity securities, net	7,562	(1,894)
Non-GAAP operating income (loss)	\$ 9,628	\$ (1,495)

On a consolidated basis, the Company had net income of \$1.5 million, or \$0.06 per diluted share, in 2022, compared to net income of \$4.3 million, or \$0.19 per diluted share, in 2021. The decrease in net income was primarily due to a decrease in unrealized gains on equity securities of \$9.5 million. Partially offsetting this decrease was a decrease in the insurance benefits and losses incurred of \$8.2 million. Operating income was \$9.6 million in 2022 as compared to operating loss of \$1.5 million in 2021. The increase in operating income was primarily due to more favorable loss experience in the life and health operations, resulting from a significant decrease in the number of claims incurred in the Medicare supplement line of business. Partially offsetting the increase in operating income was a less favorable loss experience in the property and casualty operations due to severity of losses reported from programs within the automobile liability line of business.

Total revenue was \$187.9 million in 2022 as compared to \$199.6 million in 2021. Premium revenue increased to \$185.4 million in 2022 from \$184.2 million in 2021. The increase in premium revenue was primarily attributable to an increase in life insurance premiums within the life and health operations. Also contributing to the increase in premium revenue were business writings and price increases in certain programs within the automobile liability line of business within the property and casualty operations. Partially offsetting the increase in premium revenue was a decrease in the Medicare supplement line of business in the life and health operations.

A more detailed analysis of the operating companies and other corporate activities follows.

UNDERWRITING RESULTS

American Southern

The following table summarizes, for the periods indicated, American Southern's premiums, losses, expenses and underwriting ratios:

	Year Ended December 31,	
	2022	2021
	(Dollars in thousands)	
Gross written premiums	\$ 79,218	\$ 75,914
Ceded premiums	(6,547)	(6,511)
Net written premiums	\$ 72,671	\$ 69,403
Net earned premiums	\$ 70,276	\$ 67,982
Insurance benefits and losses incurred	47,175	44,433
Commissions and underwriting expenses	20,161	20,143
Underwriting income	\$ 2,940	\$ 3,406
Loss ratio	67.1%	65.4%
Expense ratio	28.7	29.6
Combined ratio	95.8%	95.0%

Gross written premiums at American Southern increased \$3.3 million, or 4.4%, during 2022 as compared to 2021. The increase in gross written premiums was primarily attributable to an increase in premiums written in the automobile liability line of business, resulting from new business writings and price increases in certain programs. Partially offsetting the increase in gross written premiums was a decrease in premiums written in the automobile physical damage line of business due to a reduction in the number of agencies, as well as a decrease in premiums written in the general liability line of business due to reduced premiums from existing agencies.

Ceded premiums increased slightly during 2022 as compared to 2021. American Southern's ceded premiums are typically determined as a percentage of earned premiums and generally increase or decrease as earned premiums increase or decrease.

The following table summarizes, for the periods indicated, American Southern's net earned premiums by line of business:

	Year Ended December 31,	
	2022	2021
	(In thousands)	
Automobile liability	\$ 33,981	\$ 30,453
Automobile physical damage	21,069	22,917
General liability	5,871	5,637
Surety	6,039	5,620
Other lines	3,316	3,355
Total	\$ 70,276	\$ 67,982

Net earned premiums increased \$2.3 million, or 3.4%, during 2022 as compared to 2021. The increase in net earned premiums was primarily attributable to an increase in business writings and price increases in certain programs within the automobile liability line of business as previously mentioned. Partially offsetting the increase in net earned premiums was a decrease in earned premiums in the automobile physical damage line of business due to a reduction in the number of existing agencies. Premiums are earned ratably over their respective policy terms and therefore premiums earned in the current year are related to policies written during both the current year and immediately preceding year.

The performance of an insurance company is often measured by its combined ratio. The combined ratio represents the percentage of losses, loss adjustment expenses and other expenses that are incurred for each dollar of premium earned by the company. A combined ratio of under 100% represents an underwriting profit while a combined ratio of over 100% indicates an underwriting loss. The combined ratio is divided into two components, the loss ratio (the ratio of losses and loss adjustment expenses incurred to premiums earned) and the expense ratio (the ratio of expenses incurred to premiums earned).

Insurance benefits and losses incurred at American Southern increased \$2.7 million, or 6.2%, during 2022 as compared to 2021. As a percentage of premiums, insurance benefits and losses incurred were 67.1% in 2022 as compared to 65.4% in 2021. The increase in the loss ratio was mainly due to severity of losses reported from programs within the automobile liability line of business. Partially offsetting this increase was a decrease in the frequency of claims in the automobile physical damage line of business.

Commissions and underwriting expenses remained constant during 2022 as compared to 2021. As a percentage of premiums, these expenses were 28.7% in 2022 as compared to 29.6% in 2021. The decrease in the expense ratio was primarily due to the increase in earned premiums. Partially offsetting the decrease in expense ratio was American Southern's use of a variable commission structure with certain agents, which compensates the participating agents in relation to the loss ratios of the business they write. During periods in which the loss ratio decreases, commissions and underwriting expenses will generally increase, and conversely, during periods in which the loss ratio increases, commissions and underwriting expenses will generally decrease. In 2022, variable commissions at American Southern increased \$0.7 million as compared to 2021 due to improved loss ratios from certain accounts subject to variable commissions.

In establishing reserves, American Southern initially reserves for losses based on management's best estimate within a reasonable range. Selection of such an initial loss estimate is an attempt by management to give recognition that initial claims information received generally is not conclusive with respect to legal liability, is generally not comprehensive with respect to magnitude of loss and generally, based on historical experience, will develop more adversely as time passes and more information becomes available. However, as a result, American Southern generally experiences reserve redundancies when analyzing the development of prior year losses in the current period. At December 31, 2022, the range of estimates developed in connection with the loss reserves for American Southern indicated that reserves could be as much as 12.1% lower or as much as 12.2% higher. Development from prior years' reserves has historically reduced the current year loss ratio; however, such reduction in the current year loss ratio is generally offset by the reserves established in the current year for current period losses. Management believes that such differences will continue in future periods, but is unable to determine if or when incremental redundancies will increase or decrease until the underlying losses are ultimately settled.

Contingent commissions, if contractually applicable, are ultimately payable to participating agents based on the underlying profitability of a particular insurance contract or a group of insurance contracts, and are periodically evaluated and accrued as earned. In each of 2022 and 2021, approximately 38% of American Southern's earned premium provides for contractual commission arrangements which compensate the company's agents in relation to the loss ratios of the business they write. By structuring its business in this manner, American Southern provides its agents with an economic incentive to place profitable business with American Southern. In periods in which loss reserves reflect favorable development from prior years' reserves, there is generally a highly correlated increase in commission expense also related to the prior year business. Accordingly, favorable loss development from prior years, while anticipated to continue in future periods, is not an indicator of significant additional profitability in the current year.

Bankers Fidelity

The following summarizes, for the periods indicated, Bankers Fidelity's premiums, losses and expenses:

	Year Ended December 31,	
	2022	2021
	(Dollars in thousands)	
Medicare supplement	\$ 148,747	\$ 162,400
Other health products	12,389	10,364
Life insurance	15,867	10,624
Gross earned premiums	177,003	183,388
Ceded premiums	(61,839)	(67,154)
Net earned premiums	115,164	116,234
Insurance benefits and losses incurred	76,281	87,261
Commissions and underwriting expenses	33,922	34,715
Total expenses	110,203	121,976
Underwriting income (loss)	\$ 4,961	\$ (5,742)
Loss ratio	66.2%	75.1%
Expense ratio	29.5	29.9
Combined ratio	95.7%	105.0%

Net earned premium revenue at Bankers Fidelity decreased \$1.1 million, or 0.9%, during 2022 as compared to 2021. Gross earned premiums from the Medicare supplement line of business decreased \$13.7 million, or 8.4%, in 2022 as compared to 2021, due primarily to non-renewals exceeding the level of new business writings. Other health product premiums increased \$2.0 million, or 19.5%, during 2022 as compared to 2021, primarily as a result of new sales of the company's group health and individual cancer products. Gross earned premiums from the life insurance line of business increased \$5.2 million, or 49.4%, in 2022 from 2021 due to an increase in the group life product premiums. Partially offsetting this increase was a decline in individual life products premium, resulting from the redemption and settlement of existing individual life policy obligations exceeding the level of new individual life sales. Premiums ceded decreased \$5.3 million, or 7.9%, in 2022 from 2021. The decrease in ceded premiums was due to a decrease in Medicare supplement premiums subject to reinsurance.

Insurance benefits and losses incurred decreased \$11.0 million, or 12.6%, during 2022 as compared to 2021. As a percentage of premiums, benefits and losses were 66.2% in 2022 as compared to 75.1% in 2021. The decrease in the loss ratio was primarily due to improved rate adequacy and a decrease in the number of claims incurred in the Medicare supplement line of business. Also contributing to the decrease in loss ratio was a decrease in both the group and individual lines of business. These decreases were marginally offset by increased loss ratios on the group accident and health lines of business.

Commissions and underwriting expenses decreased \$0.8 million, or 2.3%, during 2022 as compared to 2021. As a percentage of earned premiums, these expenses were 29.5% in 2022 as compared to 29.9% in 2021. The decrease in the expense ratio was primarily due to the additions to deferred acquisition costs (“DAC”) exceeding the amortization of DAC. The increase in additions to DAC was primarily related to the growth in sales of the group lines of business, primarily group life. Offsetting the DAC benefit were increased commissions related to the aforementioned growth in group sales coupled with increased servicing costs related to our growing group lines of business.

Net Investment Income and Realized Gains

Investment income increased \$1.4 million, or 16.5%, in 2022 as compared to 2021. The increase in investment income was primarily attributable to an increase in the equity in earnings from investments in the Company’s limited partnerships and limited liability companies of \$0.5 million. Also contributing to the increase in investment income was prepayment income of \$0.3 million related to the redemption of certain fixed maturities.

The Company had net realized investment gains of \$0.03 million in 2022 as compared to net realized investment gains of \$4.9 million in 2021. The net realized investment gains in 2022 were primarily attributable to gains from the sale of fixed maturities. The net realized investment gains in 2021 were primarily attributable to gains of \$4.3 million from the sale of the Company’s interest in a certain limited liability company as well as gains from the sale of a number of the Company’s investments in fixed maturities. Management continually evaluates the Company’s investment portfolio and, as may be determined to be appropriate, makes adjustments for impairments and/or will divest investments. See Note 2 of Notes to Consolidated Financial Statements.

Unrealized Gains (Losses) on Equity Securities, Net

Investments in equity securities are measured at fair value at the end of the reporting period, with any changes in fair value reported in net income during the period. The Company recognized net unrealized losses on equity securities of \$7.6 million and unrealized gains on equity securities of \$1.9 million during the years ended December 2022 and 2021, respectively. Changes in unrealized gains on equity securities for the applicable periods are primarily the result of fluctuations in the market value of certain of the Company’s equity securities.

Interest Expense

Interest expense increased \$0.6 million, or 40.7%, in 2022 as compared to 2021. Changes in interest expense were primarily due to changes in the London Interbank Offered Rate (“LIBOR”), as the interest rates on the Company’s outstanding junior subordinated deferrable interest debentures (“Junior Subordinated Debentures”) and the revolving credit facility are directly related to LIBOR. The Company is preparing for the expected discontinuation of LIBOR by identifying, assessing and monitoring risks associated with LIBOR transition. Preparation includes taking steps to update operational processes to support alternative reference rates and models, as well as evaluating legacy contracts for any changes that may be required, including the determination of applicable fallbacks.

Income Taxes

The primary difference between the effective tax rate and the federal statutory income tax rate for 2022 resulted from a permanent difference related to penalties and fines incurred of \$0.1 million. Also contributing to differences between the effective tax rate and the federal statutory income tax rate were the adjustment for prior years’ estimates to actual that are generally updated at the completion of the third quarter of each fiscal year and were \$0.1 million in the year ended December 31, 2022. Other contributing factors to the differences between the effective tax rate and the federal statutory income tax rate were permanent differences related to meals and entertainment and the dividends-received deduction (“DRD”). The current estimated DRD is adjusted as underlying factors change and can vary from estimates based on, but not limited to, actual distributions from investments as well as the amount of the Company’s taxable income.

The primary differences between the effective tax rate and the federal statutory income tax rate for 2021 resulted from the adjustment for prior years’ estimates to actual that are generally updated at the completion of the third quarter of each fiscal year and were \$0.1 million in the year ended December 31, 2021. Also contributing to differences between the effective tax rate and the federal statutory income tax rate were permanent differences related to meals and entertainment and vested stock and club dues. Another contributing factor was the DRD.

Liquidity and Capital Resources

The primary cash needs of the Company are for the payment of claims and operating expenses, maintaining adequate statutory capital and surplus levels, and meeting debt service requirements. Current and expected patterns of claim frequency and severity may change from period to period, but generally are expected to continue within historical ranges. The Company's primary sources of cash are written premiums, investment income and proceeds from the sale and maturity of its invested assets, as well as borrowings from time to time under our revolving credit facility. The Company believes that, within each operating company, total invested assets will be sufficient to satisfy all policy liabilities and that cash inflows from investment earnings, future premium receipts and reinsurance collections will be adequate to fund the payment of claims and operating expenses as needed.

Cash flows at the Parent are derived from dividends, management fees, and tax-sharing payments, as described below, from the subsidiaries. The principal cash needs of the Parent are for the payment of operating expenses, the acquisition of capital assets and debt service requirements, as well as the repurchase of shares and payments of any dividends as may be authorized and approved by the Company's board of directors from time to time. At December 31, 2022, the Parent had approximately \$5.0 million of unrestricted cash and investments.

Dividend payments to a parent corporation by its wholly owned insurance subsidiaries are subject to annual limitations and are restricted to 10% of statutory surplus or statutory earnings before recognizing realized investment gains of the individual insurance subsidiaries. At December 31, 2022, the Parent's insurance subsidiaries had an aggregate statutory surplus of \$89.7 million. Dividends were paid to Atlantic American by its subsidiaries totaling \$7.2 million and \$8.4 million in 2022 and 2021, respectively.

The Parent provides certain administrative, purchasing and other services to each of its subsidiaries. The amount charged to and paid by the subsidiaries for these services was \$7.6 million and \$7.4 million in 2022 and 2021, respectively. In addition, the Parent has a formal tax-sharing agreement with each of its insurance subsidiaries. A net total of \$3.9 million and \$6.7 million were paid to the Parent under the tax sharing agreement in 2022 and 2021, respectively.

The Company has two statutory trusts which exist for the exclusive purpose of issuing trust preferred securities representing undivided beneficial interests in the assets of the trusts and investing the gross proceeds of the trust preferred securities in Junior Subordinated Debentures. The outstanding \$18.0 million and \$15.7 million of Junior Subordinated Debentures mature on December 4, 2032 and May 15, 2033, respectively, are callable quarterly, in whole or in part, only at the option of the Company, and have an interest rate of three-month LIBOR plus an applicable margin. The margin ranges from 4.00% to 4.10%. At December 31, 2022, the effective interest rate was 8.73%. The obligations of the Company with respect to the issuances of the trust preferred securities represent a full and unconditional guarantee by the Parent of each trust's obligations with respect to the trust preferred securities. Subject to certain exceptions and limitations, the Company may elect from time to time to defer Junior Subordinated Debenture interest payments, which would result in a deferral of distribution payments on the related trust preferred securities. The Company has not made such an election.

The Company intends to pay its obligations under the Junior Subordinated Debentures using existing cash balances, dividend and tax-sharing payments from the operating subsidiaries, or from existing or potential future financing arrangements.

At December 31, 2022, the Company had 55,000 shares of Series D preferred stock ("Series D Preferred Stock") outstanding. All of the shares of Series D Preferred Stock are held by an affiliate of the Company's controlling shareholder. The outstanding shares of Series D Preferred Stock have a redemption value of \$100 per share; accrue annual dividends at a rate of \$7.25 per share (payable in cash or shares of the Company's common stock at the option of the board of directors of the Company) and are cumulative. In certain circumstances, the shares of the Series D Preferred Stock may be convertible into an aggregate of approximately 1,378,000 shares of the Company's common stock, subject to certain adjustments and provided that such adjustments do not result in the Company issuing more than approximately 2,703,000 shares of common stock without obtaining prior shareholder approval; and are redeemable solely at the Company's option. The Series D Preferred Stock is not currently convertible. The Company had accrued, but unpaid, dividends on the Series D Preferred Stock of \$17.7 thousand at December 31, 2022 and 2021. During each of 2022 and 2021, the Company paid Series D Preferred Stock dividends of \$0.4 million.

Bankers Fidelity Life Insurance Company ("BFLIC") is a member of the Federal Home Loan Bank of Atlanta ("FHLB"), for the primary purpose of enhancing financial flexibility. As a member, BFLIC can obtain access to low-cost funding and also receive dividends on FHLB stock. The membership arrangement provides for credit availability of five percent of statutory admitted assets, or approximately \$7.9 million, as of December 31, 2022. Additional FHLB stock purchases may be required based upon the amount of funds borrowed from the FHLB. As of December 31, 2022, BFLIC has pledged bonds having an amortized cost of \$7.2 million to the FHLB. BFLIC may be required to post additional acceptable forms of collateral for any borrowings that it makes in the future from the FHLB. As of December 31, 2022, BFLIC does not have any outstanding borrowings from the FHLB.

On May 12, 2021, the Company entered into a Revolving Credit Agreement (the “Credit Agreement”) with Truist Bank as the lender (the “Lender”). The Credit Agreement provides for an unsecured \$10 million revolving credit facility that matures on April 12, 2024. Under the Credit Agreement, the Company will pay interest on the unpaid principal balance of outstanding revolving loans at the LIBOR Rate (as defined in the Credit Agreement) plus 2.00%, subject to a LIBOR floor rate of 1.00%.

The Credit Agreement requires the Company to comply with certain covenants, including a debt to capital ratio that restricts the Company from incurring consolidated indebtedness that exceeds 35% of the Company’s consolidated capitalization at any time. The Credit Agreement also contains customary representations and warranties and events of default. Events of default include, among others, (a) the failure by the Company to pay any amounts owed under the Credit Agreement when due, (b) the failure to perform and not timely remedy certain covenants, (c) a change in control of the Company and (d) the occurrence of bankruptcy or insolvency events. Upon an event of default, the Lender may, among other things, declare all obligations under the Credit Agreement immediately due and payable and terminate the revolving commitments. As of December 31, 2022, the Company had outstanding borrowings of \$2.0 million under the Credit Agreement.

Cash and cash equivalents increased from \$24.8 million at December 31, 2021 to \$28.9 million at December 31, 2022. The increase in cash and cash equivalents during 2022 was primarily attributable to an increase in net cash provided by operating activities of \$6.5 million. Also contributing to the increase in cash and cash equivalents were proceeds from the revolving credit facility of \$2.0 million. Partially offsetting the increase in cash and cash equivalents was net cash used in investing activities of \$3.4 million primarily as a result of investment purchases exceeding investment sales and maturity of securities. Also partially offsetting the increase were dividends paid on common stock of \$0.4 million and dividends paid on the Company’s Series D Preferred Stock of \$0.4 million.

The Company believes that existing cash balances as well as the dividends, fees, and tax-sharing payments it expects to receive from its subsidiaries and, if needed, additional borrowings from financial institutions, will enable the Company to meet its liquidity requirements for the next 12 months and thereafter for the foreseeable future. Management is not aware of any current recommendations by regulatory authorities, which, if implemented, would have a material adverse effect on the Company’s liquidity, capital resources or operations.

New Accounting Pronouncements

See “Recently Issued Accounting Standards” in Note 1 of Notes to Consolidated Financial Statements.

Impact of Inflation

Insurance premiums are established before the amount of losses and loss adjustment expenses, or the extent to which inflation may affect such losses and expenses, are known. Consequently, in establishing its premiums, the Company attempts to anticipate the potential impact of inflation. If, for competitive reasons, premiums cannot be increased to anticipate inflation, this cost would be absorbed by the Company. Inflation also affects the rate of investment return on the Company’s investment portfolio with a corresponding effect on investment income. To date, inflation has not had a material effect on the Company’s results of operations in any of the periods presented.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, we have elected to comply with certain scaled disclosure reporting obligations, and therefore are not providing the information required by this Item.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Atlantic American Corporation
Atlanta, Georgia

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Atlantic American Corporation and subsidiaries (the Company) as of December 31, 2022, and 2021, and the related consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for each of the two years in the period ended December 31, 2022, and the related notes and schedules (collectively, referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and 2021, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America (US GAAP).

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 Public Company Accounting Oversight Board (United States) (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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

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

Valuation of Insurance Reserves for Losses and Claims (Claim Reserves)

As reflected on the consolidated balance sheet and discussed in Note 5 to the financial statements, the Company's insurance reserves for losses and claims (claim reserves), were \$87.5 million as of December 31, 2022. The Company's claim reserves relate primarily to its property casualty lines of business and Medicare supplement business. The process of establishing claim reserves requires the use of estimates and judgments based on circumstances underlying the insured loss at the date of accrual. Management's judgments include claims adjusters' evaluations for unpaid claims reported prior to the close of the accounting period, estimates of incurred but not reported (IBNR) claims based on past experience and estimates of loss adjustment expenses.

The principal considerations for our determination that the valuation of claim reserves is a critical audit matter are the high degree of judgment and subjectivity in auditing the actuarial methods and assumptions used in the valuation process, including assumptions around expected loss ratios and reported and paid loss emergence patterns.

Addressing the matter involved performing the following audit procedures, among others:

- Involving our actuarial specialists to assist in our procedures in:
 - o Evaluating the appropriateness of management's actuarial reserving methodologies and assumptions;
 - o Evaluating management's hindsight analyses;
 - o Comparing management's carried reserve to the range calculated by management's specialist for property casualty claim reserves;
- Testing the completeness and accuracy of data provided by management that served as the basis for the actuarial analyses on a sample basis; and
- Evaluating movement of the Company's recorded property casualty claim reserves within the Company's estimated reserve range year over year.

Valuation of Insurance Reserves for Future Policy Benefits (Policy Reserves)

As reflected on the consolidated balance sheet and discussed in Note 5 to the financial statements, the Company's insurance reserves for future policy benefits (policy reserves) were \$85.6 million as of December 31, 2022. Policy reserves are related to life and health insurance policies and are based upon significant assumptions including future investment yields, mortality rates, withdrawal rates and expenses after giving effect to possible risks of unexpected claim experience. These assumptions are based on historical experience modified as necessary to reflect anticipated trends and are generally established at contract inception.

The principal considerations for our determination that the valuation of policy reserves is a critical audit matter are the high degree of judgment required to assess certain assumptions that impact policy reserves and the complexity of the actuarial calculations.

Addressing the matter involved performing the following audit procedures, among others:

- Involving our actuarial specialists to assist in our procedures in:
 - o Evaluating whether the methodology applied by management is consistent in the aggregate with the methodology compliant with US GAAP;
 - o Assessing the significant assumptions used by management for new insurance contracts issued during the current year by comparing the significant assumptions noted above to historical experience, observable market data or management's estimates of prospective changes to these assumptions;
 - o Reviewing benefit reserve replication workbooks prepared by management for a sample of contracts; and
 - o Evaluating management's loss recognition testing of aggregate reserve sufficiency.
- Testing the completeness and accuracy of data used by management in developing assumptions on a sample basis.

Actuarial System Conversion

During the fourth quarter of 2022, the Company commenced a conversion of the actuarial system for its Medicare Supplement line of business. The system generates data used in several financial statement accounts including reinsurance receivables, deferred acquisition costs (DAC), future policy benefits, unearned premiums, insurance benefits and losses incurred and commission and underwriting expenses.

The principal considerations for our determination that the actuarial system conversion is a critical audit matter included auditing the financial statement accounts affected by the system conversion required increased auditor effort and significant auditor judgement, including the assistance of actuarial specialists, to design and execute the incremental audit procedures over the importation of policy and other data from the old system to the new system and the configuration of the new system. Also included in our principal considerations for determining this as a critical audit matter was the identified material weakness associated with certain ineffective process level controls over the development, testing, and implementation of its actuarial models used to estimate certain balances in its Medicare Supplement line of business.

Addressing the matter involved the following audit procedures, among others:

- Obtaining an understanding of the processes and controls implemented by management to:
 - o Ensure the proper implementation of the new actuarial valuation system;
 - o Ensure data was imported into the new actuarial valuation system completely and accurately; and
 - o Ensure that the outputs from the new actuarial valuation system were accurate.
- Testing the completeness and accuracy of the data used by management in the new actuarial valuation system on a sample basis.
- Involving our actuarial specialists to assist in our procedures in:
 - o Evaluating whether the methodology and assumptions applied by management in the new valuation system was consistent in the aggregate with the methodology compliant with GAAP;
 - o Reviewing benefit reserve and DAC replication workbooks prepared by management for a sample of contracts; and
 - o Comparing and analyzing the outputs from the new actuarial valuation system to the outputs from the legacy actuarial valuation system.

We have served as the Company's auditor since 2018.

/s/ FORVIS, LLP (Formerly, Dixon Hughes Goodman LLP)

Atlanta, GA
June 30, 2023

ATLANTIC AMERICAN CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2022	2021
	(In thousands, except share and per share data)	
ASSETS		
Cash and cash equivalents	\$ 28,863	\$ 24,753
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost: \$236,766 and \$238,597)	208,729	260,986
Equity securities, at fair value (cost: \$4,907 and \$4,907)	11,562	19,124
Other invested assets (cost: \$5,628 and \$698)	5,386	198
Policy loans	1,759	1,858
Real estate	38	38
Investment in unconsolidated trusts	1,238	1,238
Total investments	228,712	283,442
Receivables:		
Reinsurance	25,913	27,416
Insurance premiums and other, net of allowance for doubtful accounts of \$177 and \$188 as of 2022 and 2021, respectively	15,386	14,959
Deferred income taxes, net	14,163	1,755
Deferred acquisition costs	42,281	38,698
Other assets	9,202	8,719
Intangibles	2,544	2,544
Total assets	\$ 367,064	\$ 402,286
LIABILITIES AND SHAREHOLDERS' EQUITY		
Insurance reserves and policyholder funds		
Future policy benefits	\$ 85,564	\$ 87,348
Unearned premiums	28,348	27,469
Losses and claims	87,484	85,620
Other policy liabilities	1,255	1,360
Total insurance reserves and policyholder funds	202,651	201,797
Accounts payable and accrued expenses	26,473	25,465
Revolving credit facility	2,009	—
Junior subordinated debenture obligations, net	33,738	33,738
Total liabilities	264,871	261,000
Commitments and contingencies (Note 17)		
Shareholders' equity:		
Preferred stock, \$1 par, 4,000,000 shares authorized; Series D preferred, 55,000 shares issued and outstanding; \$5,500 redemption value	55	55
Common stock, \$1 par, 50,000,000 shares authorized; 22,400,894 shares issued; 20,407,229 and 20,378,576 shares outstanding as of 2022 and 2021, respectively	22,401	22,401
Additional paid-in capital	57,425	57,441
Retained earnings	51,982	51,264
Accumulated other comprehensive income (loss)	(22,149)	17,688
Unearned stock grant compensation	(132)	(73)
Treasury stock, at cost, 1,993,665 and 2,022,318 shares as of 2022 and 2021, respectively	(7,389)	(7,490)
Total shareholders' equity	102,193	141,286
Total liabilities and shareholders' equity	\$ 367,064	\$ 402,286

See the accompanying notes to the consolidated financial statements.

ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2022	2021
	(In thousands, except per share data)	
Revenue:		
Insurance premiums, net	\$ 185,440	\$ 184,216
Net investment income	9,932	8,528
Realized investment gains, net	30	4,903
Unrealized gains (losses) on equity securities, net	(7,562)	1,894
Other income	11	13
Total revenue	<u>187,851</u>	<u>199,554</u>
Benefits and expenses:		
Insurance benefits and losses incurred	123,456	131,694
Commissions and underwriting expenses	46,713	47,496
Interest expense	1,952	1,387
Other expense	13,634	13,675
Total benefits and expenses	<u>185,755</u>	<u>194,252</u>
Income before income taxes	2,096	5,302
Income tax expense	571	1,021
Net income	<u>1,525</u>	<u>4,281</u>
Preferred stock dividends	(399)	(399)
Net income applicable to common shareholders	<u>\$ 1,126</u>	<u>\$ 3,882</u>
Earnings per common share (basic and diluted)	<u>\$ 0.06</u>	<u>\$ 0.19</u>

See the accompanying notes to the consolidated financial statements.

ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Year Ended December 31,	
	2022	2021
	(In thousands)	
Net income	\$ 1,525	\$ 4,281
Other comprehensive loss:		
<u>Available-for-sale fixed maturity securities:</u>		
Gross unrealized holding loss arising in the period	(50,377)	(8,686)
Related income tax effect	10,579	1,824
Subtotal	(39,798)	(6,862)
Less: reclassification adjustment for net realized gains included in net income	(49)	(570)
Related income tax effect	10	120
Subtotal	(39)	(450)
Total other comprehensive loss, net of tax	(39,837)	(7,312)
Total comprehensive loss	\$ (38,312)	\$ (3,031)

See the accompanying notes to the consolidated financial statements.

ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Year Ended December 31,	
	2022	2021
(In thousands, except share and per share data)		
Preferred stock:		
Balance, beginning of year	\$ 55	\$ 55
Balance, end of year	55	55
Common stock:		
Balance, beginning of year	22,401	22,401
Balance, end of year	22,401	22,401
Additional paid-in capital:		
Balance, beginning of year	57,441	57,437
Restricted stock grants, net of forfeitures	(16)	—
Issuance of shares under stock plans	—	4
Balance, end of year	57,425	57,441
Retained earnings:		
Balance, beginning of year	51,264	47,790
Net income	1,525	4,281
Dividends on common stock	(408)	(408)
Dividends accrued on preferred stock	(399)	(399)
Balance, end of year	51,982	51,264
Accumulated other comprehensive income (loss):		
Balance, beginning of year	17,688	25,000
Other comprehensive loss, net of tax	(39,837)	(7,312)
Balance, end of year	(22,149)	17,688
Unearned stock grant compensation:		
Balance, beginning of year	(73)	(284)
Restricted stock grants, net of forfeitures	(193)	—
Amortization of unearned compensation	134	211
Balance, end of year	(132)	(73)
Treasury stock:		
Balance, beginning of year	(7,490)	(7,339)
Restricted stock grants, net of forfeitures	209	—
Net shares acquired related to employee share-based compensation plans	(108)	(153)
Issuance of shares under stock plans	—	2
Balance, end of year	(7,389)	(7,490)
Total shareholders' equity	\$ 102,193	\$ 141,286
Dividends declared on common stock per share	\$ 0.02	\$ 0.02
Common shares outstanding:		
Balance, beginning of year	20,378,576	20,415,243
Net shares acquired under employee share-based compensation plans	(36,347)	(38,147)
Issuance of shares under stock plans	—	1,480
Restricted stock grants, net of forfeitures	65,000	—
Balance, end of year	20,407,229	20,378,576

See the accompanying notes to the consolidated financial statements.

ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2022	2021
	(In thousands)	
Cash flows from operating activities:		
Net Income	\$ 1,525	\$ 4,281
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred acquisition costs	19,445	24,064
Acquisition costs deferred	(23,028)	(23,151)
Realized investment gains, net	(30)	(4,903)
Unrealized losses (gains) on equity securities, net	7,562	(1,894)
(Earnings) loss from equity method investees	(241)	290
Compensation expense related to share awards	134	211
Depreciation and amortization	890	1,003
Deferred income tax benefit	(1,819)	(1,112)
Decrease in receivables, net	1,076	1,545
Increase in insurance reserves and policyholder funds	854	3,121
Increase (decrease) in accounts payable and accrued expenses	1,008	(947)
Other, net	(923)	(1,420)
Net cash provided by operating activities	<u>6,453</u>	<u>1,088</u>
Cash flows from investing activities:		
Proceeds from investments sold	3,902	29,184
Proceeds from investments matured, called or redeemed	9,806	11,515
Investments purchased	(17,010)	(35,292)
Additions to property and equipment	(126)	(107)
Net cash (used in) provided by investing activities	<u>(3,428)</u>	<u>5,300</u>
Cash flows from financing activities:		
Payment of dividends on Series D preferred stock	(399)	(399)
Payment of dividends on common stock	(408)	(408)
Proceeds from shares issued under stock plans	—	6
Treasury stock acquired — net employee share-based compensation	(108)	(153)
Proceeds from revolving credit facility, net	2,000	—
Net cash provided by (used in) financing activities	<u>1,085</u>	<u>(954)</u>
Net increase in cash	4,110	5,434
Cash and cash equivalents at beginning of year	24,753	19,319
Cash and cash equivalents at end of year	<u>\$ 28,863</u>	<u>\$ 24,753</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 1,794</u>	<u>\$ 1,389</u>
Cash paid for income taxes	<u>\$ 2,764</u>	<u>\$ 3,202</u>

See the accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) which, for insurance companies, differ in some respects from the statutory accounting practices prescribed or permitted by regulatory authorities. These financial statements include the accounts of Atlantic American Corporation (“Atlantic American” or the “Parent”) and its subsidiaries (collectively with the Parent, the “Company”). All significant intercompany accounts and transactions have been eliminated in consolidation. Operating results achieved in any historical period are not necessarily indicative of results to be expected in any future period.

At December 31, 2022, the Parent owned five insurance subsidiaries, Bankers Fidelity Life Insurance Company and its wholly-owned subsidiaries, Bankers Fidelity Assurance Company and Atlantic Capital Life Assurance Company (together known as “Bankers Fidelity”), and American Southern Insurance Company and its wholly-owned subsidiary, American Safety Insurance Company. American Southern Insurance Company also wholly-owned three non-insurance subsidiaries, Premier Adjusting and Claim Services, Inc., Automobile Safety Management, Inc. and Automated Systems of Georgia, Inc. (together with American Southern Insurance Company and American Safety Insurance Company known as “American Southern”). In addition, the Parent owned one non-insurance subsidiary, xCalibre Risk Services, Inc. The Parent has issued a guarantee of all liabilities of Bankers Fidelity.

Premium Revenue and Cost Recognition

Life insurance premiums are recognized as revenue when due; accident and health insurance premiums are recognized as revenue over the premium paying period and property and casualty insurance premiums are recognized as revenue over the period of the contract in proportion to the amount of insurance protection provided. Losses, benefits and expenses are accrued as incurred and are associated with premiums as they are earned so as to result in recognition of profits over the lives of the contracts. For traditional life insurance and long-duration health insurance, this association is accomplished by the provision of a future policy benefits reserve and the deferral and subsequent amortization of the costs of acquiring business, which are referred to as “deferred policy acquisition costs” (principally commissions, premium taxes, and other incremental direct costs of issuing policies). Deferred policy acquisition costs (“DAC”) are amortized over the estimated premium-paying period of the related policies using assumptions consistent with those used in computing the future policy benefits reserve. The Company provides for insurance benefits and losses on accident, health, and property-casualty claims based upon estimates of projected ultimate losses. DAC for property and casualty insurance and short-duration health insurance is amortized over the effective period of the related insurance policies. Contingent commissions, if contractually applicable, are ultimately payable to agents based on the underlying profitability of a particular insurance contract or a group of insurance contracts, and are periodically evaluated and accrued as earned. In periods in which revisions are made to the estimated loss reserves related to the particular insurance contract or group of insurance contracts subject to such commissions, corresponding adjustments are also made to the related accruals. DAC is expensed when such costs are deemed not to be recoverable from future premiums (for traditional life and long-duration health insurance) and from the related unearned premiums and investment income (for property and casualty and short-duration health insurance).

Intangibles

Intangibles consist of goodwill and other indefinite-lived intangible assets. Goodwill represents the excess of cost over the fair value of net assets acquired and is not amortized. Other indefinite-lived intangibles represent the value of licenses and are not amortized. The Company periodically reviews its goodwill and other indefinite-lived intangibles to determine if any adverse conditions exist that could indicate impairment. Conditions that could trigger impairment include, but are not limited to, a significant change in business climate that could affect the value of the related asset, an adverse action, or an assessment by a regulator. No impairment of the Company’s recorded intangibles was identified during any of the periods presented.

Investments

The Company’s investments in fixed maturities, which include bonds and redeemable preferred stocks, are classified as “available-for-sale” and, accordingly, are carried at fair value with the after-tax difference from amortized cost, as adjusted if applicable, reflected in shareholders’ equity as a component of accumulated other comprehensive income or loss. The Company’s equity securities, which include common and non-redeemable preferred stocks, are carried at fair value with changes in fair value reported in net income. The fair values of fixed maturities and equity securities are largely determined from publicly quoted market prices, when available, or independent broker quotations. Values that are not determined using quoted market prices inherently involve a greater degree of judgment and uncertainty and therefore ultimately greater price volatility than the value of securities with publicly quoted market prices. Policy loans are carried at unpaid principal balance and real estate is carried at historical cost. Other invested assets are comprised of investments in limited partnerships and limited liability companies and are accounted for using the equity method. If the value of a fixed maturity security or other invested asset declines below its cost or amortized cost, as applicable, and the decline is considered to be other than temporary, a realized loss is recorded to reduce the carrying value of the investment to its estimated fair value, which becomes the new cost basis.

Premiums and discounts related to investments are amortized or accreted over the life of the related investment as an adjustment to yield using the effective interest method. Dividends and interest income are recognized when earned or declared. The cost of securities sold is based on specific identification. Unrealized gains (losses) in the value of fixed maturities are accounted for as a direct increase (decrease) in accumulated other comprehensive income in shareholders' equity, net of deferred tax and, accordingly, have no effect on net income.

Income Taxes

Deferred income taxes represent the expected future tax consequences when the reported amounts of assets and liabilities are recovered or paid. They arise from differences between the financial reporting and tax basis of assets and liabilities and are adjusted for changes in tax laws and tax rates as those changes are enacted. The provision for income taxes represents the total amount of income taxes due related to the current year, plus the change in deferred income taxes during the year. A valuation allowance is recognized if, based on management's assessment of the relevant facts, it is more likely than not that some portion of a deferred tax asset will not be realized.

Earnings Per Common Share

Basic earnings per common share are based on the weighted average number of common and participating shares outstanding during the relevant period. Diluted earnings per common share are based on the weighted average number of common and participating shares outstanding during the relevant period, plus options outstanding, if applicable, using the treasury stock method and the assumed conversion of the Series D preferred stock, if dilutive. Unless otherwise indicated, earnings per common share amounts are presented on a diluted basis.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and investments in short-term, highly liquid securities with original maturities of three months or less from date of purchase.

Reinsurance

The Company's insurance subsidiaries from time to time purchase reinsurance from unaffiliated insurers and reinsurers to reduce their potential liability on individual risks and to protect against catastrophic losses. In a reinsurance transaction, an insurance company transfers, or "cedes," a portion or all of its exposure on insurance policies to a reinsurer. The reinsurer assumes the exposure in return for a portion of the premiums. The ceding of insurance does not legally discharge the insurer from primary liability for the full amount of the policies written by it, and the ceding company will incur a loss if the reinsurer fails to meet its obligations under the reinsurance agreement.

Property and Casualty Operations

American Southern's basic reinsurance treaties generally cover all claims in excess of specified per occurrence limitations. Limits per occurrence within the reinsurance treaties are as follows: Inland marine and commercial automobile physical damage - \$225,000 excess of \$125,000 retention; and automobile liability and general liability - excess coverage of \$2.0 million less retentions that may vary from \$100,000 to \$500,000 depending on the account. American Southern maintains a property catastrophe treaty with a \$5.5 million limit excess of \$500,000 retention. American Southern also issues individual surety bonds with face amounts generally up to \$1.5 million, and limited to \$5.0 million in aggregate per account, that are not reinsured.

Life and Health Operations

Bankers Fidelity has entered into reinsurance contracts ceding the excess of its life retention. Maximum retention by Bankers Fidelity on any one individual in the case of life insurance policies is \$200,000. At December 31, 2022, \$9.6 million of the \$670.6 million of life insurance in force at Bankers Fidelity was reinsured under a mix of coinsurance and yearly renewable term agreements. Certain prior year reinsurance agreements also remain in force although they no longer provide reinsurance for new business.

Bankers Fidelity has also entered into a reinsurance contract ceding excess new Medicare supplement business to General Re Life Corporation. Ceding thresholds are set annually. During 2022, the liability of the reinsurer was 50% of all new Medicare supplement business issued by the Company on amounts up to a maximum retention of \$15.0 million of annualized premium. Accordingly, \$1.0 million of the Company's \$2.0 million of new annualized Medicare supplement premium was ceded.

For employee and director share-based compensation awards, the Company determines a grant date fair value based on the price of our publicly-traded common stock and recognize the related compensation expense, adjusted for actual forfeitures, in the consolidated statement of operations on a straight-line basis over the requisite service period for the entire award. For non-employee share-based compensation awards, the Company recognizes the impact during the period of performance, and the fair value of the award is measured as of the date performance is complete, which is the vesting date.

Treasury Stock

Treasury stock is reflected as a reduction of shareholders' equity at cost. The Company uses the first-in-first-out ("FIFO") purchase cost to determine the cost of treasury stock that is reissued. The Company includes any gains and losses in additional paid-in capital when treasury stock is reissued.

Recently Issued Accounting Standards

Adoption of New Accounting Standards

Income Taxes – Simplifying the Accounting for Income Taxes. In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12"). This updated guidance is intended to simplify the accounting for income taxes by removing several exceptions contained in existing guidance and amending other existing guidance to simplify several other income tax accounting matters. The Company adopted ASU 2019-12 as of January 1, 2021. The adoption of this ASU did not have an impact on the Company's consolidated financial statements.

Future Adoption of New Accounting Standards

Reference Rate Reform. In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting ("ASU 2020-04"). This guidance provides optional expedients and exceptions for applying GAAP to investments, derivatives, or other transactions that reference the London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued because of reference rate reform. Along with the optional expedients, the amendments include a general principle that permits an entity to consider contract modifications due to reference reform to be an event that does not require contract re-measurement at the modification date or reassessment of a previous accounting determination. Additionally, a company may make a one-time election to sell, transfer, or both sell and transfer debt securities classified as held to maturity that reference a rate affected by reference rate reform and that were classified as held to maturity before January 1, 2020. This standard may be elected over time through December 31, 2024 as reference rate reform activities occur. The Company is currently assessing the effect of adopting this guidance on its financial condition and results of operations.

Accounting for Long-Duration Contracts. In August 2018, the FASB issued ASU No. 2018-12, Financial Services —Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts ("ASU 2018-12"). This guidance (1) improves the timeliness of recognizing changes in the liability for future policy benefits and modifies the rate used to discount future cash flows, (2) simplifies and improves the accounting for certain market-based options or guarantees associated with deposit (or account balance) contracts, (3) simplifies the amortization of deferred acquisition costs, and (4) improves the effectiveness of the required disclosures. ASU 2018-12 is effective for interim and annual reporting periods beginning after December 15, 2024, although earlier adoption is permitted. The Company is currently evaluating the new guidance, but has not yet determined the method. The Company will adopt on January 1, 2025.

Financial Instruments – Credit Losses. In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). The updated guidance applies a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for financial instruments measured at amortized cost (including reinsurance recoverables, premium and other receivables) and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses, and subsequent adjustments to such losses, are recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected.

The updated guidance also amends the previous other-than-temporary impairment model for available-for-sale debt securities by requiring the recognition of impairments relating 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. In addition, the length of time a security has been in an unrealized loss position will no longer impact the determination of whether a credit loss exists.

The Company adopted the updated guidance as of January 1, 2023. The updated guidance was applied by a cumulative effect adjustment to the opening balance of retained earnings as of January 1, 2023, the beginning of the period of adoption. The adoption of this guidance resulted in the recognition of an after-tax cumulative effect adjustment of \$0.1 million to reflect the impact of recognizing expected credit losses, as compared to incurred credit losses recognized under the previous guidance. This adjustment is primarily associated with reinsurance recoverables, premium and other receivables. The cumulative effect adjustment decreased retained earnings as of January 1, 2023 and increased the allowance for estimated uncollectible reinsurance.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Significant estimates and assumptions are used in developing and evaluating deferred income taxes, deferred acquisition costs, insurance reserves, investments, and receivables, among others, and actual results could differ materially from management's estimates.

Note 2. Investments

The following tables set forth the estimated fair value, gross unrealized gains, gross unrealized losses and cost or amortized cost of the Company's investments in fixed maturities and equity securities, aggregated by type and industry, as of December 31, 2022 and December 31, 2021.

Fixed maturities were comprised of the following:

2022				
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Fixed maturities:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 44,412	\$ 5	\$ 5,926	\$ 50,333
Obligations of states and political subdivisions	9,187	4	1,702	10,885
Corporate securities:				
Utilities and telecom	22,090	120	3,299	25,269
Financial services	59,054	397	7,085	65,742
Other business – diversified	31,058	161	4,689	35,586
Other consumer – diversified	42,705	35	6,089	48,759
Total corporate securities	154,907	713	21,162	175,356
Redeemable preferred stocks:				
Other consumer – diversified	223	31	—	192
Total redeemable preferred stocks	223	31	—	192
Total fixed maturities	\$ 208,729	\$ 753	\$ 28,790	\$ 236,766
2021				
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Fixed maturities:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 50,298	\$ 763	\$ 416	\$ 49,951
Obligations of states and political subdivisions	11,644	749	—	10,895
Corporate securities:				
Utilities and telecom	29,717	2,961	44	26,800
Financial services	70,921	6,759	48	64,210
Other business – diversified	40,216	4,631	106	35,691
Other consumer – diversified	57,940	7,185	103	50,858
Total corporate securities	198,794	21,536	301	177,559
Redeemable preferred stocks:				
Other consumer – diversified	250	58	—	192
Total redeemable preferred stocks	250	58	—	192
Total fixed maturities	\$ 260,986	\$ 23,106	\$ 717	\$ 238,597

Bonds having an amortized cost of \$12,333 and \$11,169 and included in the tables above were on deposit with insurance regulatory authorities at December 31, 2022 and 2021, respectively, in accordance with statutory requirements. Additionally, bonds having an amortized cost of \$7,221 and \$5,371 and included in the tables above were pledged as collateral to FHLB at December 31, 2022 and 2021, respectively.

		2022			
		Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost or Amortized Cost
Equity securities:					
Common and non-redeemable preferred stocks:					
Financial services		790	516	—	274
Other business – diversified		10,772	6,139	—	4,633
Total equity securities		<u>\$ 11,562</u>	<u>\$ 6,655</u>	<u>\$ —</u>	<u>\$ 4,907</u>

		2021			
		Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost or Amortized Cost
Equity securities:					
Common and non-redeemable preferred stocks:					
Financial services		799	525	—	274
Other business – diversified		18,325	13,692	—	4,633
Total equity securities		<u>\$ 19,124</u>	<u>\$ 14,217</u>	<u>\$ —</u>	<u>\$ 4,907</u>

The carrying value and amortized cost of the Company's investments in fixed maturities at December 31, 2022 and 2021 by contractual maturity were as follows. Actual maturities may differ from contractual maturities because issuers may call or prepay obligations with or without call or prepayment penalties.

	2022		2021	
	Carrying Value	Amortized Cost	Carrying Value	Amortized Cost
Due in one year or less	\$ 3,776	\$ 3,797	\$ 1,734	\$ 1,730
Due after one year through five years	40,150	42,174	24,926	23,593
Due after five years through ten years	44,044	49,711	73,725	68,338
Due after ten years	87,719	103,095	122,045	106,181
Asset backed securities	33,040	37,989	38,556	38,755
Totals	<u>\$ 208,729</u>	<u>\$ 236,766</u>	<u>\$ 260,986</u>	<u>\$ 238,597</u>

The following tables present the Company's unrealized loss aging for securities by type and length of time the security was in a continuous unrealized loss position as of December 31, 2022 and 2021.

	2022					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 23,763	\$ 2,410	\$ 19,259	\$ 3,516	\$ 43,022	\$ 5,926
Obligations of states and political subdivisions	8,183	1,702	—	—	8,183	1,702
Corporate securities	127,928	16,214	14,514	4,948	142,442	21,162
Total temporarily impaired securities	<u>\$ 159,874</u>	<u>\$ 20,326</u>	<u>\$ 33,773</u>	<u>\$ 8,464</u>	<u>\$ 193,647</u>	<u>\$ 28,790</u>

	2021					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 30,141	\$ 416	\$ —	\$ —	\$ 30,141	\$ 416
Corporate securities	3,326	49	4,761	252	8,087	301
Total temporarily impaired securities	<u>\$ 33,467</u>	<u>\$ 465</u>	<u>\$ 4,761</u>	<u>\$ 252</u>	<u>\$ 38,228</u>	<u>\$ 717</u>

The evaluation for an other than temporary impairment (“OTTI”) is a quantitative and qualitative process, which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. Potential risks and uncertainties include, among other things, changes in general economic conditions, an issuer’s financial condition or near term recovery prospects and the effects of changes in interest rates. In evaluating a potential impairment, the Company considers, among other factors, management’s intent and ability to hold the securities until price recovery, the nature of the investment and the expectation of prospects for the issuer and its industry, the status of an issuer’s continued satisfaction of its obligations in accordance with their contractual terms, and management’s expectation as to the issuer’s ability and intent to continue to do so, as well as ratings actions that may affect the issuer’s credit status.

There were no OTTI charges recorded during the years ended December 31, 2022 and 2021.

As of December 31, 2022 and 2021, there were 237 and 61 securities, respectively, in an unrealized loss position which primarily included certain of the Company’s investments in fixed maturities within the financial services, other diversified business and other diversified consumer sectors. The increase in the number and value of securities in an unrealized loss position during the year ended December 31, 2022, was primarily attributable to a decline in market values in certain of the Company’s fixed maturity securities as a result of a rising interest rate environment. The Company does not currently intend to sell nor does it expect to be required to sell any of the securities in an unrealized loss position. Based upon the Company’s expected continuation of receipt of contractually required principal and interest payments and its intent and ability to retain the securities until price recovery, as well as the Company’s evaluation of other relevant factors, including those described above, the Company has deemed these securities to be temporarily impaired as of December 31, 2022.

Investment income was earned from the following sources:

	2022	2021
Fixed maturities	\$ 9,141	\$ 8,640
Equity securities	327	300
Other	729	(111)
	<u>10,197</u>	<u>8,829</u>
Investment expenses	265	301
Net investment income	<u>\$ 9,932</u>	<u>\$ 8,528</u>

A summary of realized investment gains (losses) follows:

	2022			
	Fixed Maturities	Equity Securities	Other Invested Assets	Total
Gains	\$ 101	\$ —	\$ 1	\$ 102
Losses	(52)	—	(20)	(72)
Realized investment gains, net	<u>\$ 49</u>	<u>\$ —</u>	<u>\$ (19)</u>	<u>\$ 30</u>

	2021			
	Fixed Maturities	Equity Securities	Other Invested Assets	Total
Gains	\$ 570	\$ —	\$ 4,333	\$ 4,903
Losses	—	—	—	—
Realized investment gains, net	<u>\$ 570</u>	<u>\$ —</u>	<u>\$ 4,333</u>	<u>\$ 4,903</u>

Proceeds from the sales of available-for-sale fixed maturities were as follows:

	2022	2021
Sales proceeds	\$ 3,649	\$ 9,244
Gross gains	101	454
Gross losses	—	—

Proceeds from the sales of equity securities were as follows:

	2022	2021
Sales proceeds	\$ 1	\$ 61
Gross gains	—	—
Gross losses	—	—

Proceeds from the sales of other invested assets were as follows:

	2022	2021
Sales proceeds	\$ 161	\$ 19,761
Gross gains	1	4,333
Gross losses	(20)	—

Sales of available-for-sale securities in 2022 and 2021 were primarily a result of improving the overall risk versus return profile of the portfolio. In addition, the Company sold its interest in a certain limited liability company held as other invested assets to a third-party.

The following table presents the portion of unrealized gains (losses) related to equity securities still held for the years ended December 31, 2022 and 2021.

	2022	2021
Net realized and unrealized gains (losses) recognized during the period on equity securities	\$ (7,562)	\$ 1,894
Less: Net realized gains recognized during the period on equity securities sold during the period	—	—
Unrealized gains (losses) on equity securities, net	<u>\$ (7,562)</u>	<u>\$ 1,894</u>

The Company's bond portfolio included 99% investment grade securities, as defined by the NAIC, at December 31, 2022.

Variable Interest Entities

The Company holds passive interests in a number of entities that are considered to be variable interest entities ("VIEs") under GAAP guidance. The Company's VIE interests principally consist of interests in limited partnerships and limited liability companies formed for the purpose of achieving diversified equity returns. The Company's VIE interests, carried as a part of other invested assets, totaled \$5,386 and \$198 at December 31, 2022 and 2021, respectively. The Company's VIE interests, carried as a part of investment in unconsolidated trusts, totaled \$1,238 at December 31, 2022 and 2021.

The Company does not have power over the activities that most significantly impact the economic performance of these VIEs and thus is not the primary beneficiary. Therefore, the Company has not consolidated these VIEs. The Company's involvement with each VIE is limited to its direct ownership interest in the VIE. The Company has no arrangements with any of the VIEs to provide other financial support to or on behalf of the VIE. The Company's maximum loss exposure relative to these investments was limited to the carrying value of the Company's investment in the VIEs, which amount to \$6,624 and \$1,436, at December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, the Company had outstanding commitments totaling \$5,872 and \$1,997, respectively, whereby the Company is committed to fund these investments and may be called by the partnership during the commitment period to fund the purchase of new investments and partnership expenses.

Note 3. Disclosures About Fair Value of Financial Instruments

The estimated fair values have been determined by the Company using available market information from various market sources and appropriate valuation methodologies as of the respective dates. However, considerable judgment is necessary to interpret market data and to develop the estimates of fair value. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, the estimates presented herein are not necessarily indicative of the amounts which the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following describes the fair value hierarchy and provides information as to the extent to which the Company uses fair value to measure the value of its financial instruments and information about the inputs used to value those financial instruments. The fair value hierarchy prioritizes the inputs in the valuation techniques used to measure fair value into three broad levels.

Level 1	Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. The Company's financial instruments valued using Level 1 criteria include cash equivalents and exchange traded common stocks.
Level 2	Observable inputs, other than quoted prices included in Level 1, for an asset or liability or prices for similar assets or liabilities. The Company's financial instruments valued using Level 2 criteria include significantly most of its fixed maturities, which consist of U.S. Treasury securities, U.S. Government securities, obligations of states and political subdivisions, and certain corporate fixed maturities, as well as its non-redeemable preferred stocks. In determining fair value measurements of its fixed maturities and non-redeemable preferred stocks using Level 2 criteria, the Company utilizes data from outside sources, including nationally recognized pricing services and broker/dealers. Prices for the majority of the Company's Level 2 fixed maturities and non-redeemable preferred stocks were determined using unadjusted prices received from pricing services that utilize models where the significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities) or can be corroborated by observable market data.
Level 3	Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). Fair value is based on criteria that use assumptions or other data that are not readily observable from objective sources. With little or no observable market, the determination of fair values uses considerable judgment and represents the Company's best estimate of an amount that could be realized in a market exchange for the asset or liability. The Company's financial instruments valued using Level 3 criteria consist of one fixed maturity security and one equity security. As of December 31, 2022 and December 31, 2021, the value of the fixed maturity valued using Level 3 criteria was \$0 and \$250, respectively. As of December 31, 2022 and December 31, 2021, the value of the equity security valued using Level 3 criteria was \$156 and \$157, respectively. The equity security is not traded and valued at cost. The use of different criteria or assumptions regarding data may have yielded materially different valuations.

Recurring Fair Value Measurements

Cash Equivalents. The carrying amount approximates fair value due to the short-term nature of the instruments.

Fixed Maturities and Common and Non-Redeemable Preferred Stocks. The carrying amount is determined from publicly quoted market prices. Certain fixed maturities do not have publicly quoted values and consist solely of issuances of pooled debt obligations of multiple, smaller financial services companies. They are not actively traded and valuation techniques used to measure fair value are based on future estimated cash flows discounted at reasonable estimated rates of interest. Other qualitative and quantitative information is also considered, as applicable.

Nonrecurring Fair Value Measurements

Non-publicly Traded Invested Assets. The fair value of investments in certain limited partnerships which are included in other invested assets on the consolidated balance sheet were determined by officers of those limited partnerships.

Policy Loans. Policy loans, which are categorized as Level 2 fair value measurements, are carried at the unpaid principal balances.

Junior Subordinated Debentures. The fair value is estimated based on observable interest rates and yields for debt instruments having similar characteristics.

As of December 31, 2022, financial instruments carried at fair value were measured on a recurring basis as summarized below:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Fixed maturities	\$ —	\$ 208,729	\$ —	\$ 208,729
Equity securities	11,406	—	156	11,562
Cash equivalents	18,861	—	—	18,861
Total	\$ 30,267	\$ 208,729	\$ 156	\$ 239,152

As of December 31, 2021, financial instruments carried at fair value were measured on a recurring basis as summarized below:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Fixed maturities	\$ 250	\$ 260,486	\$ 250	\$ 260,986
Equity securities	18,967	—	157	19,124
Cash equivalents	12,713	—	—	12,713
Total	\$ 31,930	\$ 260,486	\$ 407	\$ 292,823

The following table sets forth the carrying amount, estimated fair value and level within the fair value hierarchy of the Company's financial instruments as of December 31, 2022 and 2021.

	Level in Fair Value Hierarchy ⁽¹⁾	2022		2021	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:					
Cash and cash equivalents	Level 1	\$ 28,863	\$ 28,863	\$ 24,753	\$ 24,753
Fixed maturities	⁽¹⁾	208,729	208,729	260,986	260,986
Equity securities	⁽¹⁾	11,562	11,562	19,124	19,124
Other invested assets	Level 3	5,386	5,386	198	198
Policy loans	Level 2	1,759	1,759	1,858	1,858
Investments in unconsolidated trusts	Level 2	1,238	1,238	1,238	1,238
Liabilities:					
Junior subordinated debentures, net	Level 2	33,738	33,810	33,738	33,728
Revolving credit facility	Level 2	2,009	2,009	—	—

(1) See the aforementioned information for a description of the fair value hierarchy as well as a disclosure of levels for classes of these financial assets.

Note 4. Deferred Policy Acquisition Costs

The following table presents a rollforward of deferred policy acquisition costs by segment for the years ended December 31.

	2022		2021	
	American Southern	Bankers Fidelity	American Southern	Bankers Fidelity
Deferred policy acquisition costs:				
Balance, beginning of year	\$ 2,390	\$ 36,308	\$ 2,299	\$ 37,312
Capitalization	10,161	12,867	10,690	12,461
Amortization	(10,150)	(9,295)	(10,599)	(13,465)
Balance, end of year	\$ 2,401	\$ 39,880	\$ 2,390	\$ 36,308

Note 5. Internal-Use Software

On March 3, 2021, the Company entered into a hosting arrangement through a service contract with a third party software solutions vendor to provide a suite of policy, billing, claim, and customer management services. The software is managed, hosted, supported, and delivered as a cloud-based software service product offering (software-as-a-service). The initial term of the arrangement is five years from the effective date with a renewal term of an additional five years.

Service fees related to the hosting arrangement are recorded as an expense in the Company's condensed consolidated statement of operations as incurred. Implementation expenses incurred related to third party professional and consulting services have been capitalized. The Company will begin amortizing, on a straight-line basis over the expected ten year term of the hosting arrangement, when the software is substantially ready for its intended use. The Company incurred and capitalized implementation costs of \$2,522 and \$500 during the years ended December 31, 2022 and 2021, respectively. As a result, the Company has capitalized \$3,022 in implementation costs in other assets in its condensed consolidated balance sheet as of December 31, 2022. The Company expects the software will be substantially ready for its intended use during 2023. Accordingly, the Company has not recorded any amortization expense related to software implementation costs for year ended December 31, 2022.

Note 6. Insurance Reserves and Policyholder Funds

The following table presents the Company's reserves for life, accident and health, and property and casualty losses, claims and loss adjustment expenses at December 31, 2022 and 2021.

			Amount of Insurance In Force, Net	
	2022	2021	2022	2021
Future policy benefits				
Life insurance policies:				
Ordinary life and annuities	\$ 50,660	\$ 51,947	\$ 186,863	\$ 194,210
Group life	2,533	1,094	474,150	212,783
	<u>53,193</u>	<u>53,041</u>	<u>\$ 661,013</u>	<u>\$ 406,993</u>
Accident and health insurance policies	32,371	34,307		
	<u>85,564</u>	<u>87,348</u>		
Unearned premiums	28,348	27,469		
Losses, claims and loss adjustment expenses	87,484	85,620		
Other policy liabilities	1,255	1,360		
Total insurance reserves and policyholder funds	<u>\$ 202,651</u>	<u>\$ 201,797</u>		

Annualized premiums for accident and health insurance policies were \$89,471 and \$101,315 at December 31, 2022 and 2021, respectively.

Future Policy Benefits

Liabilities for future benefits on life and accident and health policies are based upon assumed future investment yields, mortality rates, morbidity rates, and lapse rates after giving effect to possible risks of unexpected adverse claim experience. The assumed mortality, morbidity, and lapse rates are based upon the Company's experience and are modified as necessary to reflect anticipated trends and are generally established at contract inception. The assumptions include a margin for adverse experience development. The interest rates assumed for life, accident and health future policy benefits are generally: (i) 2.5% to 5.5% for issues prior to 1977, (ii) 5.5% to 7.0% for 1977 through 1979 issues, (iii) 9.0% for 1980 through 1987 issues, (iv) 5.0% to 7.0% for 1988 through 2009 issues, (v) 4.0% for 2010 through 2012 issues, (vi) 3.5% to 4.0% for 2013 through 2020 issues, and (vii) 3.0% for 2021 and 2022 issues.

Loss and Claim Reserves

Loss and claim reserves represent estimates of projected ultimate losses and are based upon: (a) management's estimate of ultimate liability and claims adjusters' evaluations for unpaid claims reported prior to the close of the accounting period, (b) estimates of incurred but not reported ("IBNR") claims based on past experience, and (c) estimates of loss adjustment expenses. The estimated liability is periodically reviewed by management and updated, with changes to the estimated liability recorded in the statement of operations in the year in which such changes are known.

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

	2022	2021
Balance at January 1	\$ 85,620	\$ 79,147
Less: Reinsurance recoverable on unpaid losses	(17,690)	(17,600)
Net balance at January 1	67,930	61,547
Incurred related to:		
Current year	125,754	134,284
Prior years	(4,228) ⁽¹⁾	(3,415) ⁽²⁾
Total incurred	121,526	130,869
Paid related to:		
Current year	82,002	89,838
Prior years	37,617	34,648
Total paid	119,619	124,486
Net balance at December 31	69,837	67,930
Plus: Reinsurance recoverable on unpaid losses	17,647	17,690
Balance at December 31	\$ 87,484	\$ 85,620

- (1) Prior years' development was primarily the result of better than expected development on prior year's loss and claim reserves for the Medicare Supplement line of business in Bankers Fidelity, as well as the surety line of business in American Southern.
- (2) Prior years' development was primarily the result of better than expected development on prior year's loss and claim reserves for certain lines of business in American Southern, somewhat offset by unfavorable development on prior years' loss and claim reserves for the Medicare Supplement line of business in Bankers Fidelity.

Following is a reconciliation of total incurred losses to total insurance benefits and losses incurred:

	2022	2021
Total incurred losses	\$ 121,526	\$ 130,869
Cash surrender value and matured endowments	1,598	2,179
Benefit reserve changes	332	(1,354)
Total insurance benefits and losses incurred	\$ 123,456	\$ 131,694

Liability for Unpaid Losses, Claims and Loss Adjustment Expenses

The following is information, by significant product lines, about incurred and paid claims development as of December 31, 2022, net of reinsurance, as well as the cumulative number of reported claims and the total of IBNR reserves plus expected development on reported claims included within the net incurred claims amounts. The information presented for the years ended December 31, 2015 and prior is presented as supplementary information and is unaudited.

Medicare Supplement

Accident Year	For the Years Ended December 31,										As of December 31, 2022	
	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance										IBNR Reserves	Cumulative Number of Reported Claims
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022		
2013	\$56,974	\$56,970	\$57,034	\$57,023	\$57,021	\$57,016	\$57,015	\$57,014	\$57,014	\$ 57,014	\$ —	867
2014		57,179	56,938	56,981	56,981	56,976	56,977	56,976	56,976	56,976	—	957
2015			55,482	54,939	54,993	54,990	54,984	54,985	54,985	54,985	—	939
2016				58,849	59,851	63,226	63,225	63,221	63,221	63,221	—	898
2017					67,960	69,655	69,643	69,635	69,633	69,633	—	1,037
2018						79,140	80,404	80,361	80,357	80,351	—	1,512
2019							88,765	87,028	86,988	86,986	1	2,052
2020								75,857	75,715	75,730	20	2,245
2021									65,267	61,579	228	1,852
2022										58,777	12,666	1,768
										<u>\$665,252</u>		

Accident Year	Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	\$ 47,770	\$ 56,970	\$ 57,034	\$ 57,023	\$ 57,021	\$ 57,016	\$ 57,015	\$ 57,014	\$ 57,015	\$ 57,014
2014		48,024	56,938	56,981	56,981	56,976	56,977	56,976	56,976	56,976
2015			45,430	54,876	54,993	54,990	54,984	54,985	54,985	54,985
2016				49,165	59,747	63,226	63,225	63,221	63,221	63,221
2017					57,696	69,517	69,643	69,635	69,633	69,633
2018						66,565	80,222	80,361	80,355	80,351
2019							72,333	86,856	86,978	86,985
2020								63,129	75,527	75,710
2021									50,197	61,350
2022										46,111
										<u>\$652,336</u>
										<u>\$ 12,916</u>
										Liabilities for losses, claims and loss adjustment expenses, net of reinsurance

The cumulative number of reported claims for the Medicare Supplement line of business is the number of distinct claims incurred and submitted to the Centers for Medicare and Medicaid Services for payment in the given year. Multiple payments on the same claim are not counted in the frequency information. Estimated ultimate claims incurred, using claims data reported during each month of any given year, are calculated using the chain ladder method modified to reflect seasonality and trend-adjusted expected claims for the most recent four-month period prior to the statement date. Additional adjustments to the estimated ultimate claims incurred are then applied to account for seasonal changes in claim experience and changes in the rate of claim processing. The IBNR is calculated as the estimated ultimate claims less the total of paid claims through the valuation date and claims in the course of settlement as of the valuation date. Thirty-six months of loss data are used to develop the estimated ultimate incurred claims. For other accident and health products that have very small claim volumes, similar approaches are used and modified to reflect the unique aspects of the products.

Automobile Liability

Accident Year	For the Years Ended December 31,										As of December 31, 2022	
	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance										IBNR Reserves	Cumulative Number of Reported Claims
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022		
2013	\$18,664	\$20,702	\$21,096	\$21,823	\$21,352	\$21,020	\$20,972	\$20,972	\$20,970	\$ 20,958	\$ —	3,278
2014		20,812	21,881	22,041	22,353	21,682	22,080	22,100	22,125	22,165	35	3,558
2015			18,521	19,857	20,017	20,007	20,086	20,680	20,849	20,955	9	3,537
2016				20,549	21,275	21,846	22,388	22,245	22,310	22,448	—	3,862
2017					22,179	24,212	23,766	25,180	26,009	26,153	74	3,813
2018						24,284	25,682	27,338	30,013	30,464	466	3,650
2019							25,241	24,045	25,724	28,042	1,725	3,599
2020								22,416	16,442	20,137	1,815	2,494
2021									25,887	21,172	2,415	2,707
2022										28,860	14,911	2,532
										<u>\$241,354</u>		

Accident Year	Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2013	\$ 5,144	\$ 12,193	\$ 16,782	\$ 19,407	\$ 20,382	\$ 20,982	\$ 20,972	\$ 20,972	\$ 20,970	\$ 20,958
2014		6,822	13,807	17,554	20,177	20,878	21,735	21,813	21,786	21,958
2015			6,226	11,878	14,938	17,612	19,557	20,234	20,726	20,904
2016				6,796	13,141	16,397	19,613	21,408	21,809	22,448
2017					7,401	16,317	20,221	22,778	25,023	25,712
2018						6,989	15,647	21,121	24,662	27,671
2019							7,305	14,694	19,384	22,868
2020								5,172	9,941	14,693
2021									6,242	13,918
2022										7,023
										<u>\$198,153</u>
										<u>\$ 43,201</u>
										Liabilities for losses, claims and loss adjustment expenses, net of reinsurance

Automobile Physical Damage

Accident Year	For the Years Ended December 31,					As of December 31, 2022	
	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance					IBNR Reserves	Cumulative Number of Reported Claims
	2018	2019	2020	2021	2022		
2018	\$ 7,805	\$ 7,530	\$ 7,447	\$ 7,430	\$ 7,461	\$ —	1,461
2019		8,526	8,026	7,914	7,881	1	1,493
2020			10,288	10,080	10,047	3	1,634
2021				14,296	13,385	10	1,880
2022					10,962	232	1,617
					<u>\$ 49,736</u>		

Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance						
Accident Year	2018	2019	2020	2021	2022	
2018	\$ 6,344	\$ 7,510	\$ 7,446	\$ 7,433	\$ 7,461	
2019		6,360	8,005	7,906	7,867	
2020			8,347	9,952	10,008	
2021				11,993	13,277	
2022					8,475	
					<u>\$ 47,088</u>	
					<u>\$ 2,648</u>	

Liabilities for losses, claims and loss adjustment expenses, net of reinsurance

General Liability

Accident Year	For the Years Ended December 31,										As of December 31, 2022	
	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance										IBNR Reserves	Cumulative Number of Reported Claims
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022		
2013	\$ 3,461	\$ 728	\$ 926	\$ 817	\$ 865	\$ 820	\$ 945	\$ 904	\$ 868	\$ 867	\$ —	199
2014		3,744	501	557	476	406	497	523	519	511	3	203
2015			4,421	1,037	1,227	1,044	867	855	855	870	4	148
2016				3,119	1,148	736	608	621	619	620	—	94
2017					1,490	488	513	738	738	839	23	84
2018						1,656	333	198	128	183	—	76
2019							1,916	707	455	515	60	89
2020								2,223	670	657	93	89
2021									2,567	1,329	327	94
2022										2,770	1,780	77
										<u>\$ 9,161</u>		

Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance											
Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
2013	\$ 104	\$ 339	\$ 579	\$ 811	\$ 791	\$ 803	\$ 805	\$ 855	\$ 867	\$ 867	
2014		171	299	331	369	373	493	498	502	502	
2015			98	259	464	664	863	855	855	854	
2016				116	203	568	608	617	619	620	
2017					75	136	365	556	696	741	
2018						65	90	115	128	183	
2019							41	209	242	354	
2020								208	385	462	
2021									364	646	
2022										402	
										<u>\$ 5,631</u>	
											296
											<u>\$ 3,826</u>

All outstanding liabilities before 2013, net of reinsurance

Liabilities for losses, claims and loss adjustment expenses, net of reinsurance

Surety

Accident Year	For the Years Ended December 31,										As of December 31, 2022	
	Incurred Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance										IBNR Reserves	Cumulative Number of Reported Claims
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022		
2013	\$ 3,060	\$ 2,007	\$ 2,743	\$ 2,947	\$ 2,866	\$ 2,809	\$ 2,765	\$ 2,757	\$ 2,753	\$ 2,751	\$ —	60
2014		3,214	3,130	2,990	2,760	2,685	2,617	2,818	2,782	2,852	48	54
2015			1,902	1,630	1,400	1,359	1,406	1,310	1,307	1,280	—	50
2016				3,314	1,812	1,865	1,876	1,865	1,678	1,670	—	47
2017					4,677	3,671	3,799	3,629	3,514	3,440	6	63
2018						3,528	1,938	1,381	956	767	1	64
2019							2,130	657	630	513	11	31
2020								2,263	574	465	—	23
2021									2,936	1,455	318	35
2022										3,202	1,476	36
										<u>\$ 18,395</u>		

Accident Year	Cumulative Paid Losses, Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
2013	\$ 323	\$ 1,010	\$ 1,369	\$ 2,763	\$ 2,789	\$ 2,749	\$ 2,765	\$ 2,757	\$ 2,753	\$ 2,751	
2014		1,331	2,327	2,727	2,739	2,664	2,593	2,562	2,562	2,568	
2015			641	856	1,127	1,125	1,128	1,271	1,273	1,279	
2016				1,054	1,732	1,772	1,873	1,862	1,677	1,670	
2017					1,971	3,255	3,523	3,545	3,442	3,402	
2018						1,157	1,454	1,361	941	760	
2019							259	395	568	446	
2020								97	460	464	
2021									156	803	
2022										970	
										<u>\$ 15,113</u>	
											All outstanding liabilities before 2013, net of reinsurance
											31
											Liabilities for losses, claims and loss adjustment expenses, net of reinsurance
											<u>\$ 3,313</u>

For the property and casualty lines of business, the number of claims presented above equals the number of occurrences by type of claim reported to the Company. The number of claims reported during a given year corresponds to the number of claims records opened during the year. Frequency information is maintained on a cumulative basis by accident year by line of business. For automobile claims, a claim count is separately maintained for bodily injury, property damage and physical damage claims. The Company has consistently monitored claim frequency on this basis, and believes this provides more meaningful information than using claimant count which can change over the course of settling a claim.

In general, when a claim is reported, claims representatives establish a “case reserve” for the estimated amount of the ultimate payment based on the known information of the claim at that time. Claims managers review and monitor all property and casualty claims in excess of \$25,000. As new information becomes available or payments are made on a claim, the case reserve is adjusted to reflect the revised estimate of the ultimate amount to be paid out. Estimates and assumptions pertaining to individual claims are based on complex and subjective judgments and subject to change at any time as new information becomes available.

In addition to case reserves, IBNR reserves are established to provide for claims which have not been reported to the Company as of the reporting date as well as potential adverse development on known case reserves. IBNR reserve estimates are derived through a number of analytical techniques. Actuarial data is analyzed by line of business, coverage and accident year. Qualitative factors are also considered in determining IBNR reserves and include such factors as judicial decisions, general economic trends such as inflation, changes in policy forms, and underwriting changes. Reserves are reviewed quarterly and any indicated adjustments are made.

Because of the inherent uncertainties in establishing both case and IBNR reserves, ultimate loss experience may prove better or worse than indicated by the combined claim reserves. Adjustments to claim reserves are reflected in the period recognized and could increase or decrease earnings for the period.

The following is supplementary information about average historical claims duration as of December 31, 2022.

Reserve Line	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)									
	1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year	7th Year	8th Year	9th Year	10th Year
Medicare Supplement	82.4%	16.9%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Automobile Liability	27.2%	29.9%	17.6%	12.2%	7.3%	2.9%	1.4%	0.2%	0.4%	-0.1%
Automobile Physical Damage	83.1%	15.5%	-0.5%	-0.3%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
General Liability	20.1%	20.7%	21.9%	16.5%	11.6%	5.9%	0.3%	2.1%	0.7%	0.0%
Surety	49.2%	38.0%	10.1%	-3.0%	-4.8%	-1.0%	-0.2%	0.1%	0.0%	-0.1%

The reconciliation of the net incurred and paid claims development tables to the liability for losses, claims and loss adjustment expenses is as follows:

	December 31, 2022
Net outstanding liabilities	
Medicare Supplement	\$ 12,916
Automobile Liability	43,201
Automobile Physical Damage	2,648
General Liability	3,826
Surety	3,313
Other short-duration insurance lines	1,212
Liabilities for unpaid losses, claims and loss adjustment expenses, net of reinsurance	67,116
Reinsurance recoverable on unpaid losses:	
Medicare Supplement	9,382
Automobile Liability	5,086
Automobile Physical Damage	334
General Liability	2,451
Other short-duration insurance lines	394
Total reinsurance recoverable on unpaid losses	17,647
Unallocated claims adjustment expenses	2,721
Total gross liability for unpaid losses, claims and loss adjustment expenses	\$ 87,484

Note 7. Reinsurance

In accordance with general practice in the insurance industry, portions of the life, property and casualty insurance written by the Company are reinsured; however, the Company remains liable with respect to reinsurance ceded should any reinsurer be unable or unwilling to meet its obligations. Approximately 99.7% of the Company's reinsurance recoverables were due from a single reinsurer as of December 31, 2022. Reinsurance recoverables of \$25,824 were due from General Re Corporation, rated "AA+" by Standard & Poor's and "A++" (Superior) by A.M. Best. Allowances for uncollectible amounts are established against reinsurance recoverables, if appropriate.

The effects of reinsurance on premiums written, premiums earned and insurance benefits and losses incurred were as follows:

For the Year Ended December 31, 2022			
	American Southern	Bankers Fidelity	Total
Direct premiums written	\$ 52,404	\$ 176,119	\$ 228,523
Assumed premiums written	26,814	9	26,823
Ceded premiums written	(6,547)	(61,701)	(68,248)
Net premiums written	<u>\$ 72,671</u>	<u>\$ 114,427</u>	<u>\$ 187,098</u>
Direct premiums earned	\$ 51,844	\$ 176,995	\$ 228,839
Assumed premiums earned	24,978	8	24,986
Ceded premiums earned	(6,546)	(61,839)	(68,385)
Net premiums earned	<u>\$ 70,276</u>	<u>\$ 115,164</u>	<u>\$ 185,440</u>
Provision for benefits and losses incurred	\$ 49,568	\$ 124,478	\$ 174,046
Reinsurance loss recoveries	(2,393)	(48,197)	(50,590)
Insurance benefits and losses incurred	<u>\$ 47,175</u>	<u>\$ 76,281</u>	<u>\$ 123,456</u>

For the Year Ended December 31, 2021			
	American Southern	Bankers Fidelity	Total
Direct premiums written	\$ 53,815	\$ 182,867	\$ 236,682
Assumed premiums written	22,099	12	22,111
Ceded premiums written	(6,511)	(67,010)	(73,521)
Net premiums written	<u>\$ 69,403</u>	<u>\$ 115,869</u>	<u>\$ 185,272</u>
Direct premiums earned	\$ 52,424	\$ 183,382	\$ 235,806
Assumed premiums earned	22,069	7	22,076
Ceded premiums earned	(6,511)	(67,155)	(73,666)
Net premiums earned	<u>\$ 67,982</u>	<u>\$ 116,234</u>	<u>\$ 184,216</u>
Provision for benefits and losses incurred	\$ 46,500	\$ 144,091	\$ 190,591
Reinsurance loss recoveries	(2,067)	(56,830)	(58,897)
Insurance benefits and losses incurred	<u>\$ 44,433</u>	<u>\$ 87,261</u>	<u>\$ 131,694</u>

Components of reinsurance receivables at December 31, 2022 and 2021 were as follows:

December 31, 2022			
	American Southern	Bankers Fidelity	Total
Recoverable on unpaid losses	\$ 8,265	\$ 9,382	\$ 17,647
Recoverable on unpaid benefits	—	6,788	6,788
Recoverable on paid losses	—	618	618
Ceded unearned premiums	—	681	681
Ceded advanced premiums	—	179	179
Total reinsurance receivables	<u>\$ 8,265</u>	<u>\$ 17,648</u>	<u>\$ 25,913</u>
December 31, 2021			
	American Southern	Bankers Fidelity	Total
Recoverable on unpaid losses	\$ 6,937	\$ 10,753	\$ 17,690
Recoverable on unpaid benefits	—	8,169	8,169
Recoverable on paid losses	—	499	499
Ceded unearned premiums	—	819	819
Ceded advanced premiums	—	239	239
Total reinsurance receivables	<u>\$ 6,937</u>	<u>\$ 20,479</u>	<u>\$ 27,416</u>

Note 8. Income Taxes

Total income taxes were allocated as follows:

	2022	2021
Total tax expense on income	\$ 571	\$ 1,021
Tax benefit on components of shareholders' equity:		
Net unrealized losses on investment securities	(10,589)	(1,944)
Total tax benefit	<u>\$ (10,018)</u>	<u>\$ (923)</u>

A reconciliation of the differences between income taxes computed at the federal statutory income tax rate and the income tax benefit is as follows:

	2022	2021
Federal income tax provision at the statutory rate	\$ 440	\$ 1,112
Statutory rate	21%	21%
Dividends-received deduction	(24)	(26)
Meals and entertainment	61	32
Vested stock and club dues	14	(28)
Parking disallowance	17	16
Penalties and fines	149	—
Adjustment for prior years' estimates to actual	(86)	(85)
Income tax expense	<u>\$ 571</u>	<u>\$ 1,021</u>
Effective tax rate	<u>27.2%</u>	<u>19.3%</u>

The primary difference between the effective tax rate and the federal statutory income tax rate for 2022 resulted from a permanent difference related to penalties and fines incurred of \$149. Also contributing to differences between the effective tax rate and the federal statutory income tax rate were the adjustment for prior years' estimates to actual that are generally updated at the completion of the third quarter of each fiscal year and were \$86 in the year ended December 31, 2022. Other contributing factors to the differences between the effective tax rate and the federal statutory income tax rate were permanent differences related to meals and entertainment and the dividends-received deduction ("DRD"). The current estimated DRD is adjusted as underlying factors change and can vary from estimates based on, but not limited to, actual distributions from investments as well as the amount of the Company's taxable income.

The primary differences between the effective tax rate and the federal statutory income tax rate for 2021 resulted from the adjustment for prior years' estimates to actual that are generally updated at the completion of the third quarter of each fiscal year and were \$85 in the year ended December 31, 2021. Also contributing to differences between the effective tax rate and the federal statutory income tax rate were permanent differences related to meals and entertainment and vested stock and club dues. Another contributing factor was the DRD.

Deferred tax assets and liabilities at December 31, 2022 and 2021 were comprised of the following:

	2022	2021
Deferred tax assets:		
Deferred acquisition costs	\$ 7,953	\$ 7,026
Net unrealized investment losses	4,489	—
Insurance reserves	1,597	2,028
Impaired assets	791	780
Bad debts and other	252	280
Total deferred tax assets	<u>15,082</u>	<u>10,114</u>
Deferred tax liabilities:		
Deferred and uncollected premiums	\$ (835)	\$ (561)
Net unrealized investment gains	—	(7,689)
Other	(84)	(109)
Total deferred tax liabilities	<u>(919)</u>	<u>(8,359)</u>
Net deferred tax asset (liability)	<u>\$ 14,163</u>	<u>\$ 1,755</u>

The components of income tax expense were:

	2022	2021
Current – Federal	\$ 2,390	\$ 2,133
Deferred – Federal	(1,819)	(1,112)
Total	<u>\$ 571</u>	<u>\$ 1,021</u>

The Company has formal tax-sharing agreements, and files a consolidated income tax return, with its subsidiaries. Tax years 2019, 2020 and 2021 are considered open tax years that remain subject to examination by the Internal Revenue Service.

Note 9. Credit Arrangements

The Company is preparing for the expected discontinuation of LIBOR by identifying, assessing and monitoring risks associated with LIBOR transition. Preparation includes taking steps to update operational processes to support alternative reference rates and models, as well as evaluating legacy contracts for any changes that may be required, including the determination of applicable fallbacks.

Bank Debt

On May 12, 2021, the Company entered into a Revolving Credit Agreement (the “Credit Agreement”) with Truist Bank as the lender (the “Lender”). The Credit Agreement provides for an unsecured \$10,000 revolving credit facility that matures on April 12, 2024. Under the Credit Agreement, the Company will pay interest on the unpaid principal balance of outstanding revolving loans at the LIBOR Rate (as defined in the Credit Agreement) plus 2.00%, subject to a LIBOR floor rate of 1.00%.

The Credit Agreement requires the Company to comply with certain covenants, including a debt to capital ratio that restricts the Company from incurring consolidated indebtedness that exceeds 35% of the Company’s consolidated capitalization at any time. The Credit Agreement also contains customary representations and warranties and events of default. Events of default include, among others, (a) the failure by the Company to pay any amounts owed under the Credit Agreement when due, (b) the failure to perform and not timely remedy certain covenants, (c) a change in control of the Company and (d) the occurrence of bankruptcy or insolvency events. Upon an event of default, the Lender may, among other things, declare all obligations under the Credit Agreement immediately due and payable and terminate the revolving commitments. As of December 31, 2022, the Company had outstanding borrowings of \$2,009 under the Credit Agreement.

Junior Subordinated Debentures

The Company has two unconsolidated Connecticut statutory business trusts, which exist for the exclusive purposes of: (i) issuing trust preferred securities (“Trust Preferred Securities”) representing undivided beneficial interests in the assets of the trusts; (ii) investing the gross proceeds of the Trust Preferred Securities in junior subordinated deferrable interest debentures (“Junior Subordinated Debentures”) of Atlantic American; and (iii) engaging in those activities necessary or incidental thereto. At December 31, 2022, the effective interest rate was 8.73%.

The financial structure of each of Atlantic American Statutory Trust I and II, as of December 31, 2022 and 2021, was as follows:

	Atlantic American Statutory Trust I	Atlantic American Statutory Trust II
JUNIOR SUBORDINATED DEBENTURES ⁽¹⁾⁽²⁾		
Balance December 31, 2022	\$ 18,042	\$ 23,196
Less: Treasury debt ⁽³⁾	—	(7,500)
Net balance December 31, 2022	<u>\$ 18,042</u>	<u>\$ 15,696</u>
Net balance December 31, 2021	<u>\$ 18,042</u>	<u>\$ 15,696</u>
Coupon rate	LIBOR + 4.00%	LIBOR + 4.10%
Interest payable	Quarterly	Quarterly
Maturity date	December 4, 2032	May 15, 2033
Redeemable by issuer	Yes	Yes
TRUST PREFERRED SECURITIES		
Issuance date	December 4, 2002	May 15, 2003
Securities issued	17,500	22,500
Liquidation preference per security	\$ 1	\$ 1
Liquidation value	<u>\$ 17,500</u>	<u>\$ 22,500</u>
Coupon rate	LIBOR + 4.00%	LIBOR + 4.10%
Distribution payable	Quarterly	Quarterly
Distribution guaranteed by ⁽⁴⁾	Atlantic American Corporation	Atlantic American Corporation

- (1) For each of the respective debentures, the Company has the right at any time, and from time to time, to defer payments of interest on the Junior Subordinated Debentures for a period not exceeding 20 consecutive quarters up to the debentures' respective maturity dates. During any such period, interest will continue to accrue and the Company may not declare or pay any cash dividends or distributions on, or purchase, the Company's common stock nor make any principal, interest or premium payments on or repurchase any debt securities that rank equally with or junior to the Junior Subordinated Debentures. The Company has the right at any time to dissolve each of the trusts and cause the Junior Subordinated Debentures to be distributed to the holders of the Trust Preferred Securities.
- (2) The Junior Subordinated Debentures are unsecured and rank junior and subordinate in right of payment to all senior debt of the Parent and are effectively subordinated to all existing and future liabilities of its subsidiaries.
- (3) In 2014, the Company acquired \$7,500 of the Junior Subordinated Debentures.
- (4) The Parent has guaranteed, on a subordinated basis, all of the obligations under the Trust Preferred Securities, including payment of the redemption price and any accumulated and unpaid distributions to the extent of available funds and upon dissolution, winding up or liquidation.

Note 10. Leases

The Company has two operating lease agreements, each for the use of office space in the ordinary course of business. The first lease renews annually on an automatic basis and based on original assumptions, management is reasonably certain to exercise the renewal option through 2026. The original term of the second lease was ten years and amended in January 2017 to provide for an additional seven years, with a termination date on September 30, 2026. The rate used in determining the present value of lease payments is based upon an estimate of the Company's incremental secured borrowing rate commensurate with the term of the underlying lease.

These leases are accounted for as operating leases, whereby lease expense is recognized on a straight-line basis over the term of the lease. Lease expense reported for each of the years ended December 31, 2022 and 2021 was \$1,014.

Additional information regarding the Company's real estate operating leases is as follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Other information on operating leases:		
Cash payments included in the measurement of lease liabilities reported in operating cash flows	\$ 1,031	1,015
Right-of-use assets included in other assets on the consolidated balance sheet	3,405	4,143
Weighted average discount rate	6.8%	6.8%
Weighted average remaining lease term in years	3.9 years	4.9 years

The following table presents maturities and present value of the Company's lease liabilities:

	Lease Liability
2023	\$ 1,048
2024	1,065
2025	1,083
2026	942
2027	—
Thereafter	—
Total undiscounted lease payments	4,138
Less: present value adjustment	515
Operating lease liability included in accounts payable and accrued expenses on the consolidated balance sheet	\$ 3,623

As of December 31, 2022, the Company has no operating leases that have not yet commenced.

Note 11. Benefit Plans

Equity Incentive Plan

On May 1, 2012, the Company's shareholders approved the 2012 Equity Incentive Plan (the "2012 Plan"). The 2012 Plan authorizes the grant of up to 2,000,000 stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares, performance units and other awards for the purpose of providing the Company's non-employee directors, consultants, officers and other employees incentives and rewards for performance and service. During the year ended 2022, a total of 25,000 restricted shares, with an estimated fair value of \$71 were issued under the 2012 Plan. During 2021, there were no restricted shares issued under the 2012 Plan. The estimated fair value of the restricted shares issued under the 2012 Plan during 2022 was based on the common stock price at date of grant. Stock grants are generally issued from treasury shares. Vesting of restricted shares generally occurs after a one to three year period following the date of grant. The Company accounts for forfeitures as they occur. There were no stock options granted or outstanding under the 2012 Plan in 2022 or 2021. Shares available for future grant under the 2012 Plan at December 31, 2021 were 935,200. The 2012 Plan expired on April 30, 2022, ten years after its effective date. As such, no grants have been or will be made under the 2012 Plan on or after its expiration, but outstanding awards granted thereunder will continue in accordance with their terms.

On May 24, 2022, the Company’s shareholders approved the 2022 Equity and Incentive Compensation Plan (the “2022 Plan”). The 2022 Plan authorizes the grant of up to 3,000,000 stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares, performance units and other awards, and succeeded the 2012 Plan for the purpose of providing the Company’s non-employee directors, consultants, officers and other employees incentives and rewards for performance and service. During the year ended 2022, a total of 40,000 restricted shares, with an estimated fair value of \$122 were issued under the 2022 Plan. Vesting of restricted shares generally occurs after a one to three year period following the date of grant. Shares available for future grant under the 2022 Plan at December 31, 2022 were 2,960,000.

401(k) Plan

The Company initiated an employees’ savings plan (the “Plan”) qualified under Section 401(k) of the Internal Revenue Code in May 1995. The Plan covers substantially all of the Company’s employees. Effective January 1, 2009, the Company modified the Plan such that the Plan would operate on a safe harbor basis. Under the Plan, employees may defer up to 50% of their compensation, not to exceed the annual deferral limit. The Company’s total matching contribution for 2022 and 2021 was \$255 and \$272, respectively, and consisted of a contribution equal to 35% of up to the first 6% of each participant’s contributions. In addition to the matching contribution, the Company also provided a 3% safe harbor non-elective contribution in 2022 and 2021 of \$569 and \$549, respectively. All contributions were made in cash. Participants are 100% vested in their own contributions and the vested percentage attributable to certain employer contributions is based on a five-year graded schedule.

Agent Stock Purchase Plan

The Company initiated a nonqualified stock purchase plan (the “Agent Stock Purchase Plan”) in May 2012. The purpose of the Agent Stock Purchase Plan is to promote and advance the interests of the Company and its shareholders by providing independent agents who qualify as participants with an opportunity to purchase the common stock of the Company. Under the Agent Stock Purchase Plan, payment for shares of common stock of the Company is made by either deduction from an agent’s commission payment or a direct cash payment. Stock purchases are made at the end of each calendar quarter at the then current market value.

Note 12. Preferred Stock

The Company had 55,000 shares of Series D preferred stock (“Series D Preferred Stock”) outstanding at December 31, 2022 and 2021, respectively. All of the shares of Series D Preferred Stock are held by an affiliate of the Company’s controlling shareholder. The outstanding shares of Series D Preferred Stock have a par value of \$1 per share and a redemption value of \$100 per share; accrue annual dividends at a rate of \$7.25 per share (payable in cash or shares of the Company’s common stock at the option of the board of directors of the Company) and are cumulative. In certain circumstances, the shares of the Series D Preferred Stock may be convertible into an aggregate of approximately 1,378,000 shares of the Company’s common stock, subject to certain adjustments and provided that such adjustments do not result in the Company issuing more than approximately 2,703,000 shares of common stock without obtaining prior shareholder approval; and are redeemable solely at the Company’s option. The Series D Preferred Stock is not currently convertible. The Company had accrued, but unpaid, dividends, on the Series D Preferred Stock of \$18 at December 31, 2022 and 2021. During each of 2022 and 2021, the Company paid Series D Preferred Stock dividends of \$399.

Note 13. Earnings Per Common Share

Basic earnings per share was computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share reflected the effect of potentially dilutive securities.

A reconciliation of the numerator and denominator of the income per common share calculations is as follows:

For the Year Ended December 31, 2022			
	Income	Weighted Average Shares Outstanding (In thousands)	Per Share Amount
Basic and Diluted Earnings Per Common Share			
Net income before preferred stock dividends	\$ 1,525	20,390	
Less preferred stock dividends	(399)	—	
Net income applicable to common shareholders	<u>\$ 1,126</u>	<u>20,390</u>	<u>\$ 0.06</u>
For the Year Ended December 31, 2021			
	Income	Weighted Average Shares Outstanding (In thousands)	Per Share Amount
Basic and Diluted Earnings Per Common Share			
Net income before preferred stock dividends	\$ 4,281	20,402	
Less preferred stock dividends	(399)	—	
Net income applicable to common shareholders	<u>\$ 3,882</u>	<u>20,402</u>	<u>\$ 0.19</u>

The assumed conversion of the Company's Series D Preferred Stock was excluded from the earnings per common share calculation for 2022 and 2021 since its impact would have been antidilutive.

Note 14. Statutory Reporting

The assets, liabilities and results of operations have been reported on the basis of GAAP, which varies in some respects from statutory accounting practices ("SAP") prescribed or permitted by insurance regulatory authorities. The principal differences between SAP and GAAP are that under SAP: (i) carrying value of certain investments differ on a GAAP versus SAP basis, such as fixed maturities that are shown at amortized cost for SAP versus fair value for GAAP (ii) certain assets that are non-admitted assets are eliminated from the balance sheet; (iii) acquisition costs for policies are expensed as incurred, while they are deferred and amortized over the estimated life of the policies under GAAP; (iv) the provision that is made for deferred income taxes is different than under GAAP; (v) the timing of establishing certain reserves is different than under GAAP; (vi) reinsurance is shown net on balance sheet for SAP and (vii) certain valuation allowances attributable to certain investments are required under SAP such as asset valuation reserve and interest maintenance reserve.

The Company meets the minimum capital requirements in the states in which it does business. The amount of reported statutory net income and capital and surplus (shareholders' equity) for the Parent's insurance subsidiaries for the years ended December 31 was as follows:

	2022	2021
Bankers Fidelity, net income (loss)	\$ 3,865	\$ (364)
American Southern, net income	5,743	7,688
Statutory net income	<u>\$ 9,608</u>	<u>\$ 7,324</u>
Bankers Fidelity, capital and surplus	\$ 36,672	\$ 38,625
American Southern, capital and surplus	53,023	52,724
Statutory capital and surplus	<u>\$ 89,695</u>	<u>\$ 91,349</u>

Under the insurance code of the state in which each insurance subsidiary is domiciled, dividend payments to the Parent by its insurance subsidiaries are subject to certain limitations without the prior approval of the applicable state's Insurance Commissioner. The Parent received dividends of \$7,200 and \$8,400 in the years ended 2022 and 2021, respectively, from its subsidiaries. In 2022, dividend payments to the Parent by the insurance subsidiaries in excess of \$8,739 would require prior approval.

Note 15. Related Party Transactions

In the normal course of business the Company has engaged in transactions with entities affiliated with the controlling shareholder of the Company. These transactions include the leasing of office space, certain investing and financing activities, as well as inconsequential administrative and consulting services. At December 31, 2022, two members of the Company's board of directors, including the Company's Chairman, President and Chief Executive Officer, were considered to be affiliates of the majority shareholder.

The Company leases approximately 49,586 square feet of office and covered garage space from one such controlled entity. During the years ended December 31, 2022 and 2021, the Company paid \$880 and \$879, respectively, under this lease. In December 2022, Delta Life Insurance Company, the owner of the building, transferred title to the building to 4370 Peachtree LLC. Each of Delta Life Insurance Company and 4370 Peachtree LLC is controlled by an affiliate of the Company. Additionally, as of December 31, 2021, Delta Life Insurance Company owned 1,663,809 shares of the Company's common stock. No shares of the Company's common stock were owned by Delta Life Insurance Company as of December 31, 2022.

Certain financing for the Company has also been provided by this entity in the form of an investment in the Series D Preferred Stock (See Note 12). During the years ended December 31, 2022 and 2021, the Company paid this entity \$399 in dividends on the Series D Preferred Stock.

Certain members of the Company's management and board of directors are shareholders and on the board of directors of Gray Television, Inc. ("Gray"). As of December 31, 2022 and 2021, the Company owned 880,272 shares of Gray Class A common stock and 106,000 shares of Gray common stock. The aggregate carrying value of these investments in Gray at December 31, 2022 and 2021 was \$10,772 and \$18,325, respectively.

In each of the years ended December 31, 2022 and 2021, Gray paid the Company approximately \$1,708 and \$1,308 in insurance premiums related to certain voluntary employee benefit plans.

Note 16. Segment Information

The Parent's primary insurance subsidiaries operate with relative autonomy and each company is evaluated based on its individual performance. American Southern operates in the property and casualty insurance market, while Bankers Fidelity operates in the life and health insurance market. Each segment derives revenue from the collection of premiums, as well as from investment income. Substantially all revenue other than that in the corporate and other segment is from external sources.

	For the Year Ended December 31, 2022				
	American Southern	Bankers Fidelity	Corporate & Other	Adjustments & Eliminations	Consolidated
Insurance premiums, net	\$ 70,276	\$ 115,164	\$ —	\$ —	\$ 185,440
Insurance benefits and losses incurred	47,175	76,281	—	—	123,456
Expenses deferred	(10,161)	(12,867)	—	—	(23,028)
Amortization and depreciation expense	10,240	9,452	498	—	20,190
Other expenses	20,082	37,337	17,432	(9,714)	65,137
Total expenses	67,336	110,203	17,930	(9,714)	185,755
Underwriting income	2,940	4,961	—	—	7,901
Net investment income (loss)	4,147	5,414	2,461	(2,090)	9,932
Other income (loss)	3	8	7,624	(7,624)	11
Subtotal	7,090	10,383	(7,845)	—	9,628
Net realized gains (losses)	(28)	58	—	—	30
Unrealized losses on equity securities	(449)	(6,629)	(484)	—	(7,562)
Income (loss) before income taxes	\$ 6,613	\$ 3,812	\$ (8,329)	\$ —	\$ 2,096
Total revenues	\$ 73,949	\$ 114,015	\$ 9,601	\$ (9,714)	\$ 187,851
Intangibles	\$ 1,350	\$ 1,194	\$ —	\$ —	\$ 2,544
Total assets	\$ 144,455	\$ 195,028	\$ 140,661	\$ (113,080)	\$ 367,064

	For the Year Ended December 31, 2021				
	American Southern	Bankers Fidelity	Corporate & Other	Adjustments & Eliminations	Consolidated
Insurance premiums, net	\$ 67,982	\$ 116,234	\$ —	\$ —	\$ 184,216
Insurance benefits and losses incurred	44,433	87,261	—	—	131,694
Expenses deferred	(10,690)	(12,461)	—	—	(23,151)
Amortization and depreciation expense	10,756	13,692	537	—	24,985
Other expenses	20,077	33,484	16,255	(9,092)	60,724
Total expenses	64,576	121,976	16,792	(9,092)	194,252
Underwriting income (loss)	3,406	(5,742)	—	—	(2,336)
Net investment income (loss)	3,570	5,204	1,466	(1,712)	8,528
Other income (loss)	4	9	7,380	(7,380)	13
Subtotal	6,980	(529)	(7,946)	—	(1,495)
Net realized gains	2,198	2,705	—	—	4,903
Unrealized gains on equity securities	114	1,550	230	—	1,894
Income (loss) before income taxes	\$ 9,292	\$ 3,726	\$ (7,716)	\$ —	\$ 5,302
Total revenues	\$ 73,868	\$ 125,702	\$ 9,076	\$ (9,092)	\$ 199,554
Intangibles	\$ 1,350	\$ 1,194	\$ —	\$ —	\$ 2,544
Total assets	\$ 161,788	\$ 227,395	\$ 177,638	\$ (164,535)	\$ 402,286

Note 17. Commitments and Contingencies

Litigation

From time to time, the Company is, and expects to continue to be, involved in various claims and lawsuits incidental to and in the ordinary course of its business. In the opinion of management, any such known claims are not expected to have a material effect on the financial condition or results of operations of the Company.

Regulatory Matters

Like all domestic insurance companies, the Company's insurance subsidiaries are subject to regulation and supervision in the jurisdictions in which they do business. Statutes typically delegate regulatory, supervisory, and administrative powers to state insurance commissioners. From time to time, and in the ordinary course of business, the Company receives notices and inquiries from state insurance departments with respect to various matters.

In November 2021, the Company was made aware by a state regulatory authority of alleged violations relating to certain sales of insurance policies and that the Company may be subject to regulatory action, including fines. The Company agreed to settle the matter through a consent order which included a penalty that was recorded in the financial statements in March 2022.

Note 18. Subsequent Events

None.

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*

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control over financial reporting system has been designed to provide reasonable assurance regarding the reliability and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Management recognizes that there are inherent limitations in the effectiveness of any internal control system. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Furthermore, the application of any evaluations of effectiveness on 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. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based on that evaluation, management, including the Chief Executive Officer and Chief Financial Officer, concluded that disclosure controls and procedures were not effective as of that date due to a material weakness in internal control over financial reporting described below.

Management's Report on Internal Control Over Financial Reporting

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2022 based upon the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the updated 2013 *Internal Control – Integrated Framework*. Based on that evaluation, management believes that internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f) was not effective as of December 31, 2022, as a result of the material weakness described below. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

As a result of management's evaluation, we identified certain deficiencies in internal control that we believe rise to the level of a material weakness. Specifically, management determined that certain process controls over the development, testing, and implementation of our actuarial models used to estimate certain values in the Medicare supplement line of business within our life and health segment were not effective and the related management review controls did not operate at an appropriate level of precision to identify anomalies in results timely enough to allow management to respond without delays in our financial reporting process. Notwithstanding these deficiencies, management believes that, as a result of the actions taken by management to address and correct these deficiencies prior to the completion and filing of this Annual Report on Form 10-K, and the effective operation of other internal controls over financial reporting, the material weakness did not result in any identified material misstatements to our financial statements. As a result, there were no changes to any of our historical financial statements.

This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to certain rules of the Securities and Exchange Commission that exempt non-accelerated filers, including the Company, from such requirement.

Changes in Internal Control Over Financial Reporting

The Company has implemented changes in processes that include enhanced controls over the development, testing, and implementation of actuarial models, and additional controls over the reporting of the financial information that is obtained from these models. Specifically, the Company has taken the following actions:

- Developed enhanced documentation of the product parameters and assumptions used in actuarial models and enhanced controls over their testing and implementation in the models.
- Improved reconciliations of the policyholder data between the source administrative systems and the actuarial models.
- Implemented additional controls over the reporting processes including enhanced analytical procedures and establishing a second independent reviewer.
- Hired additional actuarial staff to assist with actuarial model implementation and actuarial valuation.

Except for the changes described above, which were initiated during the quarter ended December 31, 2022, and continued into the six months ending June 30, 2023, there were no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2022, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

No system of controls, no matter how well designed and implemented, can provide absolute assurance that the objectives of the system of controls are met. Furthermore, no evaluation of controls can provide absolute assurance that all control issues and any instances of fraud within a company have been detected.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The following sets forth the names, ages, positions, and biographies as of June 1, 2023 of the members of the Company’s Board of Directors and the Company’s executive officers:

Name	Age	Position with the Company
Hilton H. Howell, Jr	61	Chairman of the Board, President and Chief Executive Officer
Robin R. Howell	58	Director
Mark E. Preisinger	63	Director
Joseph M. Scheerer	48	Director
Scott G. Thompson	78	Director
D. Keehln Wheeler	62	Director
J. Ross Franklin	45	Vice President, Chief Financial Officer and Secretary

The biographies below contain information regarding, as applicable, the person’s service to the Company, business, educational, and other professional experience, director positions with any other “publicly traded” company held currently or at any time during the last five years, information regarding involvement in certain legal or administrative proceedings, if applicable, during the last ten years, and for Directors, the experiences, qualifications, attributes or skills that caused the Board to determine that the person should be nominated to serve as a Director of the Company. The Company believes that the backgrounds and qualifications of its Directors, considered as a group at any time, should provide diverse business and professional capabilities, along with the experience, knowledge and other abilities that will allow the Board to effectively fulfill its responsibilities.

Mr. Howell has been President and Chief Executive Officer of the Company since May 1995 and prior thereto served as Executive Vice President of the Company from October 1992 to May 1995. During his tenure with the Company, Mr. Howell has also served in various capacities for the Company’s subsidiaries. He is actively engaged in key decision making of each of the Company’s operating subsidiaries and has longstanding relationships with not only the Company’s employees but a significant number of the Company’s subsidiaries’ independent agents. He has been a Director of the Company since October 1992 and, beginning in February 2009, assumed the role of Chairman of the Board of Directors. Mr. Howell also serves as the executive chairman and chief executive officer, and a director, of Gray Television, Inc., a leading media company. Given the size of the Company and the scope of its operations, the Board of Directors has concluded that Mr. Howell, due to his high level of involvement, can serve effectively in the dual role of Chairman of the Board and President and Chief Executive Officer. In addition to being very familiar with our Company, Mr. Howell is also a former attorney, which background provides additional perspective to the decisions facing not only our Company but also the Board of Directors. Mr. Howell has also been actively involved in various segments of the insurance industry throughout his career, resulting in significant depth and breadth of industry knowledge, which is beneficial to the Board of Directors. Mr. Howell is the son-in-law of Harriett J. Robinson, a greater than 5% holder of the outstanding shares of Common Stock of the Company, and is also Mrs. Howell’s husband.

Mrs. Howell has been a Director of the Company since May 2012. She has served as Vice President and a Director of both Delta Life Insurance Company and Delta Fire & Casualty Insurance Company since 1992. Mrs. Howell also serves on the board of Gray Television, Inc. She is a former Chairman of the Board of Farmer's and Merchant's Bank and a former director of Premier Bancshares, Inc. She received a BA in Economics from the University of Virginia and a Masters of Business Administration from the University of Texas at Austin, and she has held a number of management and oversight roles in various businesses in which her family maintains an interest. Mrs. Howell is active in the community, including having served as Chair of the Board of Directors and Executive Committee of the High Museum of Art, on the Governing Board of the Woodruff Arts Center, and as a member of the Forward Arts Foundation. Mrs. Howell's experience in board matters and the insurance industry and involvement at the executive level in various businesses is invaluable to the Board, and her numerous civic, social and academic associations provides valuable insight for the Company and elevates the Company's profile in the community. Mrs. Howell is the wife of Mr. Howell and the daughter of Mrs. Robinson.

Mr. Preisinger has been a Director of the Company since March 2016. He is the Director of Corporate Governance for The Coca-Cola Company, a total beverage company with products sold in more than 200 countries and territories. In this capacity his responsibilities include coordinating engagement between the company and its institutional and retail shareholders, with a primary focus on corporate governance, environmental and social issues. He joined The Coca-Cola Company in 1984 and has managed a variety of domestic and international assignments for the business. Mr. Preisinger serves on the Advisory Board for the Ira M. Millstein Center for Global Markets and Corporate Ownership at Columbia Law School and is an Emeritus member of the Advisory Board of the Weinberg Center for Corporate Governance at the University of Delaware. He is a past member of the New York Stock Exchange Listed Company Advisory Board and the Board of Governors of the International Corporate Governance Network. He is also a past Co-Chairman of the Council of Institutional Investors and he has been listed on the NACD 100 most influential people in the boardroom. The Board believes Mr. Preisinger's significant experience and insight into executive and corporate governance matters will greatly benefit the Board and complement its perspectives.

Mr. Scheerer has been a Director of the Company since December 2014. Mr. Scheerer is the Chief Executive Officer of Stonybrook Capital, LLC, which was founded in 2012 and is a specialist merchant bank focused on the insurance industry. Mr. Scheerer is also an active investor in the insurance sector, and is a frequent speaker on the state of the insurance and reinsurance industries. Mr. Scheerer previously served on the board of directors of Insurance Acquisition Corporation and on its compensation committee. He is also the chairman of the investment and advisory committee of the Inter-Atlantic Stonybrook Insurance Technology fund. Mr. Scheerer graduated from the University of Pennsylvania with a Bachelor of Arts in Economics and International Relations. His extensive knowledge of the insurance industry provides valuable insight and perspective to the Board and is also a benefit and resource for management.

Mr. Thompson has been the President and Chief Executive Officer of American Southern Insurance Company, a subsidiary of the Company, since 2004; prior thereto he had been the President and Chief Financial Officer of that company since 1984. He has been a Director of the Company since February 1996. Mr. Thompson is a certified public accountant and has been employed by American Southern for substantially his entire career. His insights with respect to American Southern's business model, its historical operations and the perspective on its niche products provide valuable insight to the Board of Directors.

Mr. Wheeler has been a Director of the Company since June 2015. He is the Founder and Chief Executive Officer of MaxMedia, a digital media marketing and branding agency based in Atlanta, Georgia which he founded in 1996. Mr. Wheeler has founded, or was a member of the board of, a number of successful companies. Mr. Wheeler's prior board experience and his executive leadership and success in various digital media marketing and branding experiences provide additional expanded perspectives to the Board of Directors.

Mr. Franklin has been Vice President, Chief Financial Officer and Secretary of the Company since November 2017, and prior thereto served as Interim Chief Financial Officer from August 2017 to November 2017. Since 2000 he has held various roles of increasing responsibility with Atlantic American and its subsidiaries, previously serving as Vice President, Accounting and Treasurer of Bankers Fidelity since 2009.

Board Leadership and Structure, and Risk Oversight

The Company is a “controlled company” and has historically experienced limited turnover in its senior management and Board of Directors. The Company maintains a board leadership structure under which our President and Chief Executive Officer (“CEO”) also serves as the Chairman of the Board of Directors. We believe that the Company, like many other publicly-traded and private companies, is well-served by this leadership structure. Having one person serve as both CEO and Chairman of the Board demonstrates for our employees, agents, suppliers, customers and other shareholders that our Company is under strong leadership, with a single person setting the tone and having primary responsibility for managing our operations and guiding our strategic efforts. We believe having a single leader for both the Company and the Board of Directors eliminates the potential for confusion or duplication of efforts, and provides clear direction and leadership for our Company. We believe that having one person serve as CEO and Chairman of the Board is appropriate and in the best interests of our Company and our shareholders at this time.

The Board has not formally designated a lead independent director and believes that as a result thereof, executive sessions of the Board, which are attended solely by independent directors, result in an open and free flow of discussion of any and all matters that any director may believe relevant to the Company and/or its management.

The Company believes that its leadership structure appropriately allows all directors to effectively participate in the provision of risk oversight. While the Board maintains oversight responsibility for the management of the Company’s risks, it has delegated oversight responsibility for certain areas of potential exposure to its committees. The Audit Committee oversees the accounting and financial reporting processes of the Company, as well as legal and compliance matters and risk management. The Audit Committee charter provides that the Audit Committee is responsible for overseeing the internal controls of the Company along with its adherence to compliance and regulatory requirements. The Audit Committee also reviews and approves all transactions with related parties. On at least a quarterly basis, the Company’s Assistant Vice President of Internal Audit provides a comprehensive report to the Audit Committee regarding the Company’s risk management activities. While the Audit Committee has been delegated primary responsibility for overseeing risk management, our entire Board of Directors is actively involved in overseeing this function for the Company. The full Board also engages in periodic discussion with the CEO, Chief Financial Officer (“CFO”), executive management of each of the Company’s operating subsidiaries and other corporate officers as the Board may deem appropriate or desirable. In addition to the roles performed by the Audit Committee, the Stock Option and Compensation Committee considers, evaluates and oversees potential risks that may arise through the implementation of our compensation programs and engages directly with all Board members, as and if necessary. We do not believe our compensation programs encourage unnecessary or excessive risk taking.

The Company believes that its leadership structure promotes effective Board oversight of risk management because the Board directly, and through its various committees, is regularly provided by management the information necessary to appropriately monitor, evaluate and assess the Company’s overall risk management.

Pursuant to our bylaws (the “Bylaws”), any director who is an “independent director” under the listing standards of the NASDAQ Stock Market (the “NASDAQ Rules”) and not a member of the family of the controlling shareholder of the Company shall offer to resign from the Board upon reaching age 72 and not be eligible to stand for reelection to the Board following such individual having reached age 72, absent a waiver from such requirement, which waiver may only be granted by affirmative vote of the majority of the members of the Board, not including the affected member.

Committees of the Board of Directors

As a result of the level of beneficial ownership of our Common Stock by members of the Robinson and Howell families and their affiliates, the Company meets the definition of a “controlled company” as defined pursuant to Rule 5615(c)(1) of the NASDAQ Rules. Accordingly, the Company is exempt from certain requirements of the NASDAQ Rules, including the requirement that a majority of its Board of Directors be independent, as defined in such rules, the requirement that director nominees be selected, or recommended for the board’s selection, by either a majority of the independent directors or a nominating committee comprised solely of independent directors, and certain requirements relating to the determination of executive officer compensation. Notwithstanding this, however, the Board of Directors has determined that the following individuals are independent pursuant to the NASDAQ Rules for purposes of serving as a member of the Board of Directors: Mark E. Preisinger, Joseph M. Scheerer and D. Keehln Wheeler.

The Board of Directors of the Company has three standing committees: the Executive Committee, the Stock Option and Compensation Committee and the Audit Committee.

The Executive Committee consists of Messrs. Howell and Wheeler, and Mrs. Howell. The Executive Committee's function is to act in the place and stead of the Board of Directors to the extent permitted by law on matters which require Board action between meetings of the Board of Directors. The Executive Committee met once during 2022.

The Stock Option and Compensation Committee consists of Messrs. Wheeler, Scheerer and Preisinger (Chairman), who are each independent pursuant to the NASDAQ Rules. The Stock Option and Compensation Committee's function is to establish the number of equity incentive awards to be granted to officers and key employees and the annual salaries and bonus amounts payable to executive officers of the Company. The Stock Option and Compensation Committee met or acted by written consent two times during 2022. Due to its status as a "controlled company" pursuant to NASDAQ Rules and the related historically low turnover among Board and Committee members, as well as among the Company's executive officers, the Board has not foreseen a need to adopt a written charter to govern the Stock Option and Compensation Committee's functions or to engage a compensation consultant. The committee maintains the sole authority to fulfill its responsibilities and has not delegated any responsibilities except that the Committee may from time to time authorize one or more officers of the Company to designate employees (other than executive officers of the Company) to receive awards under the Company's 2022 Equity and Incentive Compensation Plan (the "2022 Plan") and to determine the size of such awards, subject to the limitations set forth in the 2022 Plan. During the course of the committee's decision process regarding compensation for the executive officers, the committee may seek input from Mr. Howell with respect to the performance of the other officers and other factors to consider in making compensation decisions.

The Audit Committee is currently composed of Messrs. Wheeler (Chairman), Scheerer and Preisinger. The Audit Committee oversees the Company's (i) financial reports and other financial information; (ii) systems of internal controls regarding finance, accounting, legal compliance and ethics; and (iii) auditing, accounting and financial reporting processes.

The Board of Directors has determined that all members of the Audit Committee are independent for purposes of being an Audit Committee member, and financially literate, as such terms are defined in the NASDAQ Rules and the rules of the SEC. In addition, the Board of Directors has determined that Mr. Scheerer is an "audit committee financial expert" as defined by the SEC in Item 407(d) of Regulation S-K. In making such determination, the Board took into consideration, among other things, the express provision in Item 407(d) of Regulation S-K that the determination that a person is an audit committee financial expert shall not impose any greater responsibility or liability on that person than the responsibility and liability imposed on such person as a member of the Audit Committee, nor shall it affect the duties and obligations of other Audit Committee members or the Board of Directors. The Audit Committee has a written charter which sets out its authority and responsibilities, a copy of which is available on the Company's website, www.atlam.com. The Audit Committee met four times during 2022.

Due to its status as a controlled company pursuant to NASDAQ Rules and the related historically small turnover of its members, the Board has not historically foreseen the need to establish a separate nominating committee or adopt a written charter to govern the director nomination process. The Company's controlling shareholder and the Board of Directors have generally addressed the need to retain members and fill vacancies after discussion among current members, or the members of the Executive Committee, if necessary in lieu of the full Board, and the Company's management, with the input from the Company's controlling shareholder. The Board of Directors does not have any specific qualifications that are required to be met by director candidates and does not have a formal process for identifying and evaluating director candidates.

Additionally, the Board of Directors does not have a formal policy with respect to the consideration of any director candidates recommended by shareholders and, for the foregoing reasons, has determined that it is appropriate not to have such a formal policy at this time. The Board of Directors, however, will give due consideration to director candidates recommended by shareholders. Any shareholder that wishes to nominate a director candidate should submit complete information as to the identity and qualifications of the director candidate to the Board of Directors, including all information that would be required to be disclosed about that person in a proxy statement relating to the election of directors, at the address and in the manner set forth below for communication with the Board.

Executive sessions of the independent members of the Board of Directors are held as needed and determined by those Directors at the conclusion of each of the regular board meetings, but no less than annually at the first regular Board meeting in each calendar year.

The Board of Directors met four times in 2022. Each current Director attended all of the meetings of the Board and its committees of which he or she was a member during 2022. The Company does not have a formal policy regarding Director attendance at its annual meetings, but attendance by the Directors is encouraged and expected. At the Company's 2022 annual meeting of shareholders, all of the Company's directors were in attendance.

Shareholders may communicate with members of the Board of Directors by mail addressed to the full Board of Directors, a specific member of the Board of Directors or a particular committee of the Board of Directors, at Atlantic American Corporation, 4370 Peachtree Road, N.E., Atlanta, Georgia 30319.

Delinquent Section 16(a) Reports

Section 16(a) of the Exchange Act (as defined below) requires our directors and executive officers, and persons who beneficially own more than 10% of our Common Stock, to file with the SEC reports of ownership and changes in ownership of our equity securities. Based upon review of such reports and written representations from such persons, we believe all filing requirements were complied with in a timely manner during 2022, except for one late Form 4 filed on December 19, 2022 by Joseph M. Scheerer reporting the acquisition of a grant of restricted stock.

Code of Business Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or any persons performing similar functions, as well as its directors and other employees. A copy of this Code of Business Conduct and Ethics has been filed as an exhibit to this annual report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

2022 Summary Compensation Table

There is shown below information concerning the annual compensation for services in all capacities to the Company and its subsidiaries for the fiscal years ended December 31, 2022 and 2021 by the: (i) Chairman, President and Chief Executive Officer of the Company and (ii) the Chief Financial Officer of the Company, who are the only executive officers of the Company (together, the “named executive officers”):

Name and Principal Position	Year	Salary (\$)	Bonus \$(⁽¹⁾)	Stock Awards (\$)	All Other Compensation (\$)	Total \$(⁽²⁾)
Hilton H. Howell, Jr.	2022	550,000	800,000	-0-	122,516 ⁽³⁾	1,472,516
Chairman of the Board, President and CEO	2021	541,667	675,000	-0-	102,166	1,318,833
J. Ross Franklin	2022	363,825	300,000	-0-	52,751 ⁽⁴⁾	716,576
Vice President, CFO and Secretary	2021	341,250	250,000	-0-	50,762	642,012

(1) Discretionary bonuses awarded by the Stock Option and Compensation Committee.

(2) For Mr. Howell, does not include amounts he may be deemed to have received pursuant to certain related party transactions described below under “Certain Relationships and Related Person Transactions.”

(3) Includes fees paid in cash for serving as a director of the Company and subsidiaries of \$95,000 (\$50,000 of which would otherwise be reported in the “Fees Earned or Paid in Cash” column of the 2022 Director Compensation Table below) and 401(k) plan employer contributions of \$27,450.

(4) Includes fees paid in cash for serving as a director of subsidiaries of \$18,000 and 401(k) plan employer contributions of \$33,855.

Additional Narrative Disclosure

Retirement Benefits

The Company offers a tax-qualified 401(k) plan to its employees, under which participating employees may contribute a portion of their eligible compensation into their plan accounts. Each of the named executive officers was eligible to participate in the 401(k) plan during fiscal 2022. The Company makes matching contributions under the 401(k) plan equal to 35% of up to the first 6% of employee contributions, subject to tax-based limitations.

Severance and Change in Control Compensation

The Company does not have any arrangements in place with the named executive officers that provide for payments in connection with their termination of service or a change in control of the Company.

Outstanding Equity Awards at 2022 Fiscal Year-End

The named executive officers did not hold any outstanding equity awards as of December 31, 2022.

Stock Awards				
Name	# of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: # of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested (\$)
Hilton H. Howell, Jr.	-	-	-	-
J. Ross Franklin	-	-	-	-

Pay Versus Performance Disclosure

Pay Versus Performance ⁽¹⁾						
Year (a)	Summary Compensation Table ("SCT") Total for PEO (b)	Compensation Actually Paid to PEO (c)(2)	Average Summary Compensation Table Total for Non-PEO Named Executive Officers (d)	Average Compensation Actually Paid to Non-PEO Named Executive Officers (e)(2)	Value of Initial Fixed \$100 Investment Based On:	Net Income (in thousands) (g)(4)
					Total Shareholder Return (f)(3)	
2022	\$ 1,472,516	\$ 1,486,916	\$ 716,576	\$ 721,976	\$ 114.85	\$ 1,525
2021	\$ 1,318,833	\$ 1,381,765	\$ 642,012	\$ 665,612	\$ 119.59	\$ 4,281

- (1) Hilton H. Howell, Jr. was our principal executive officer ("PEO") for the full year for each of 2022 and 2021. For each of 2022 and 2021, our only non-PEO named executive officer was J. Ross Franklin. Throughout this Pay Versus Performance Disclosure, we refer to certain "average" amounts for the non-PEO named executive officers, in accordance with SEC rules. However, in each such instance, the amounts disclosed are solely with respect to Mr. Franklin.
- (2) For each of 2022 and 2021 (each, a "Covered Year"), in determining both the compensation actually paid ("CAP") to our PEO and the average CAP to our non-PEO named executive officers for purposes of this Pay Versus Performance table ("PVP Table"), we deducted from or added back to the total amounts of compensation reported in column (b) or column (d) for such Covered Year the following amounts:

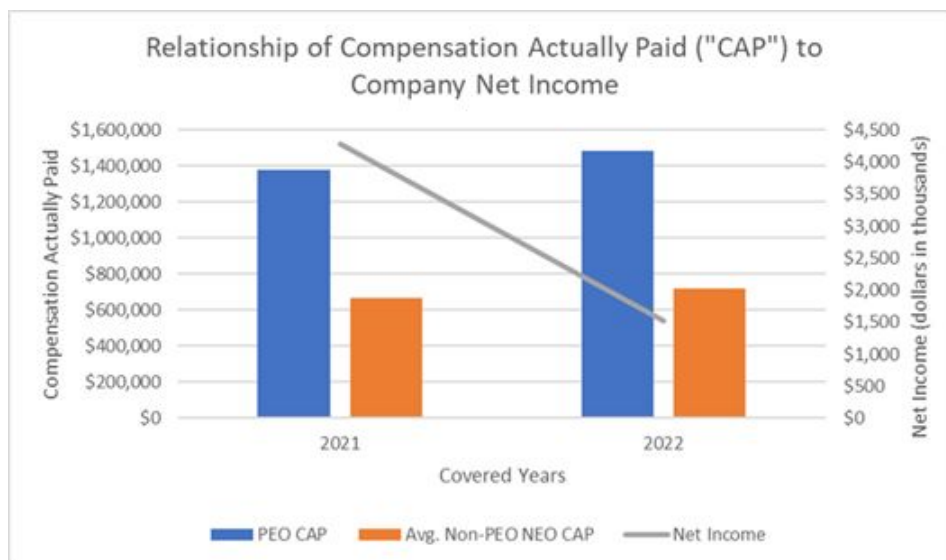
Item and Value Added (Deducted)	2022	2021
For Mr. Howell:		
- SCT "Stock Awards" column value	—	—
- SCT "Option Awards" column value	—	—
+ year-end fair value of outstanding equity awards granted in Covered Year	—	—
+/- change in fair value of outstanding equity awards granted in prior years	—	\$ 10,400
+ vesting date fair value of equity awards granted and vested in Covered Year	—	—
+/- change in fair value of prior-year equity awards vested in Covered Year	\$ 13,867	\$ 51,465
- prior year-end fair value of prior-year equity awards forfeited in Covered Year	—	—
+ includable dividends/earnings on equity awards during Covered Year	\$ 533	\$ 1,067
For Non-PEO Named Executive Officers (Average):		
- SCT "Stock Awards" column value	—	—
- SCT "Option Awards" column value	—	—
+ year-end fair value of outstanding equity awards granted in Covered Year	—	—
+/- change in fair value of outstanding equity awards granted in prior years	—	\$ 3,900
+ vesting date fair value of equity awards granted and vested in Covered Year	—	—
+/- change in fair value of prior-year equity awards vested in Covered Year	\$ 5,200	\$ 19,300
- prior year-end fair value of prior-year equity awards forfeited in Covered Year	—	—
+ includable dividends/earnings on equity awards during Covered Year	\$ 200	\$ 400

(3) For each Covered Year, our total shareholder return was calculated as the yearly percentage change in our cumulative total shareholder return on our common stock, par value \$1.00 per share, measured as the quotient of (a) the sum of (i) the cumulative amount of dividends for a period beginning with our closing price on the NASDAQ Global Market on December 31, 2020 through and including the last day of the fiscal year covered (each one-year and two-year period, the "Measurement Period"), assuming dividend reinvestment, plus (ii) the difference between our closing stock price at the end versus the beginning of the Measurement Period, divided by (b) our closing share price at the beginning of the Measurement Period. Each of these yearly percentage changes was then applied to a deemed fixed investment of \$100 at the beginning of the Measurement Period to produce the Covered Year-end values of such investment as of the end of 2022 and 2021, as applicable. Because Covered Years are presented in the table in reverse chronological order (from top to bottom), the table should be read from bottom to top for purposes of understanding cumulative returns over time.

(4) Net income is calculated in accordance with United States Generally Accepted Accounting Principles.

The following charts provide, across the Covered Years, descriptions of the relationships between (1) the CAP to the PEO and the average of the CAP to our non-PEO named executive officers (in each case as set forth in the PVP Table above) and (2) each of the performance measures set forth in columns (f) and (g) of the PVP Table above.





Compensation of Directors

Effective in November 2022, the Company increased its compensation program for members of the Board from a cash payment of \$10,000 per Board meeting and \$1,000 per committee meeting attended, to \$20,000 for each Board meeting attended, whether in person or telephonically, and \$2,000 for each committee meeting attended, whether in person or telephonically. In addition, Directors are reimbursed for actual expenses incurred in connection with attending meetings of the Board and/or committees of the Board. Pursuant to the Company's 2022 Plan, Directors are eligible to receive stock options to purchase shares of Common Stock and other equity awards. In 2022, each of our non-employee Directors received a grant of restricted stock valued at \$30,600, which vested in full on May 8, 2023.

The following table provides information about the compensation paid or granted for services as a director of the Company for the year ended December 31, 2022. Mr. Howell also served as a director of the Company during 2022. He did not receive any stock awards for such service, but did receive cash fees for his attendance at Board meetings. See the "Summary Compensation Table" above for information on the total compensation paid to Mr. Howell for all services provided to the Company and its subsidiaries.

2022 Director Compensation

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) ⁽¹⁾	All Other Compensation (\$)	Total (\$)
Robin R. Howell	50,000	30,600	-0-	80,600 ⁽²⁾
Mark E. Preisinger	55,000	30,600	-0-	85,600
Joseph M. Scheerer	55,000	30,600	-0-	85,600
Scott G. Thompson	50,000	-0-	-0- ⁽³⁾	50,000
D. Keehln Wheeler	55,000	30,600	-0-	85,600

- (1) Grant date fair value of stock awards calculated in accordance with the Financial Accounting Standards Board's Accounting Standards Codification Topic 718. For a discussion of assumptions underlying the value of equity incentive awards, see note 10 of the notes to the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022. As of December 31, 2022, each of the Company's non-employee directors held 10,000 shares of restricted stock.
- (2) Does not include amounts deemed received pursuant to certain related transactions and described below in "Certain Relationships and Related Person Transactions."
- (3) For Mr. Thompson, excludes compensation received as an employee of a subsidiary of the Company.

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

Equity Compensation Plan Information

The following table sets forth, as of December 31, 2022, the number of securities issuable upon exercise of outstanding options, warrants and rights, the weighted average exercise price thereof and the number of securities remaining available for future issuance under the Company's equity compensation plans:

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders	—	\$ —	2,960,000
Equity compensation plans not approved by security holders ⁽¹⁾	—	—	—
Total	—	\$ —	2,960,000

- (1) All the Company's equity compensation plans have been approved by the Company's shareholders.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth ownership information regarding our outstanding equity securities as of June 12, 2023 by: (i) each person who is known to the Company to beneficially own more than 5% of the outstanding shares of Common Stock of the Company; (ii) each Director; (iii) each executive officer named in the Summary Compensation Table above; and (iv) all of the Company's Directors and executive officers as a group. The address of each such person and entities controlled by such person is: c/o Atlantic American Corporation, 4370 Peachtree Road, N.E., Atlanta, Georgia 30319.

Name of Stockholder	Common Stock ⁽¹⁾		Series D Preferred Stock ⁽¹⁾	
	Number of Shares	Percent of Class	Number of Shares	Percent of Class
Harriett J. Robinson	15,217,583 ⁽²⁾	74.57%	55,000 ⁽²⁾	100%
Hilton H. Howell, Jr.	835,119 ⁽³⁾	4.09%	-	-
Robin R. Howell	3,988,356 ⁽⁴⁾	19.54%	-	-
Mark E. Preisinger	20,000 ⁽⁵⁾	*	-	-
Joseph M. Scheerer	30,000 ⁽⁵⁾	*	-	-
Scott G. Thompson	145,959	*	-	-
D. Keehln Wheeler	30,000 ⁽⁵⁾	*	-	-
J. Ross Franklin	36,979	*	-	-
All directors and executive officers as a group (8 persons)	16,315,640 ⁽⁶⁾	79.95%	55,000	100%

*Represents less than one percent.

- (1) All shares of stock are owned "beneficially" as set forth in the rules of the SEC. Under those rules, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of, or to direct the disposition of, such security. The person is also deemed to be a beneficial owner of any security of which that person has a right to acquire beneficial ownership (such as by exercise of options) within 60 days. Under such rules, more than one person may be deemed to be a beneficial owner of the same securities, and a person may be deemed to be a beneficial owner of securities as to which he or she may disclaim any beneficial interest. Except as indicated in other notes to this table, directors and executive officers possessed sole voting and investment power with respect to all shares of stock referred to in the table. Except upon the occurrence of certain events, shares of Series D

preferred stock, par value \$1.00 per share (the “Series D Preferred Stock”), are not entitled to any vote, whereas each share of Common Stock entitles its holder to one vote. The shares of Series D Preferred Stock are not currently convertible, but may become convertible into shares of Common Stock under certain conditions.

- (2) Includes: 8,047,048 shares of Common Stock held in trust for her children, with respect to which she serves as trustee; 919,721 shares of Common Stock held in trust for her grandchildren, with respect to which she serves as trustee; 5,120,555 shares of Common Stock owned by Gulf Capital Services, LLLP; and 55,000 shares of Series D Preferred Stock owned by Delta Life Insurance Company (“Delta Life”); all of which entities are controlled by Mrs. Robinson.
- (3) Includes: 283,772 shares held pursuant to the Company’s 401(k) Plan; and 34,075 shares owned directly or indirectly by his wife, excluding shares held in a trust for her benefit over which she does not have voting or dispositive power.
- (4) Includes: 3,954,281 shares held in a trust for her benefit over which Harriett J. Robinson serves as trustee; 2,175 shares held in an individual retirement account; and 10,000 shares of restricted stock as to which the holder has voting, but not dispositive power. Does not include any shares held by Mr. Howell (see note 3 above).
- (5) Includes 10,000 shares of restricted stock as to which the holder has voting, but not dispositive power.
- (6) See notes 2 through 5 above.

The information required to be disclosed in this Item 12 by Item 201(d) of Regulation S-K is included in Item 5 “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” in the Form 10-K.

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

The Company currently leases space for its principal offices, as well as the principal offices of certain of its subsidiaries, from 4370 Peachtree LLC. 4370 Peachtree LLC is controlled by Harriett J. Robinson, a former member of our Board of Directors. During 2022, the Company leased such space from Delta Life. In December of 2022, ownership of the office building was transferred from Delta Life to 4370 Peachtree LLC. In addition, Mr. Howell and Mrs. Howell are officers, directors and/or shareholders in Delta Life. Under the terms of the lease, the Company pays annual rent of approximately \$0.5 million, plus a pro rata share of all real estate taxes, general maintenance and service expenses and insurance costs with respect to the office building and related facilities. The lease does not have a set termination date, but is terminable by either party with at least twelve months advance notice. In 2022, the Company paid approximately \$0.9 million to Delta Life under the terms of the lease.

In 2022, Gray Television, Inc. (“Gray”) paid the Company approximately \$1.7 million in insurance premiums related to certain voluntary employee benefits plans. Mr. Howell is the executive chairman and chief executive officer, and a director, and Mrs. Howell is a director, of Gray.

The Company has outstanding 55,000 shares of its Series D Preferred Stock, all of which is owned by Delta Life. The outstanding shares of Series D Preferred Stock have a par value of \$1 per share and redemption value of \$100 per share; accrue annual dividends at a rate of \$7.25 per share (payable in cash or shares of the Company’s common stock at the option of the Board of Directors of the Company) and are cumulative; in certain circumstances may be convertible into an aggregate of approximately 1,378,000 shares of Common Stock, subject to certain adjustments and provided that such adjustments do not result in the Company issuing more than approximately 2,703,000 shares of common stock without obtaining prior shareholder approval; and are redeemable solely at the Company’s option. The Series D Preferred Stock is not currently convertible. The Company had accrued, but unpaid, dividends, on the Series D Preferred Stock of \$17,722 at December 31, 2022. During 2022, the Company paid Series D Preferred Stock dividends of \$0.4 million.

Information regarding the independence of the members of our Board of Directors is contained above under the heading “ITEM 10. Directors, Executive Officers and Corporate Governance – Committees of the Board of Directors.”

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The Company’s independent registered public accounting firm for the Company’s 2022 fiscal year end was FORVIS, LLP (“FORVIS”) and for the 2021 fiscal year was Dixon Hughes Goodman LLP (“DHG”). DHG, the Company’s prior independent registered public accounting firm, completed its previously announced merger with BKD, LLP, effective June 1, 2022. Following the merger, the combined firm now operates under the name FORVIS.

Amounts paid to, or billed by, the Company's independent registered public accounting firms, during the two most recent fiscal years by category were as follows:

Audit Fees

The Company has paid or expects to pay FORVIS (as successor to DHG) approximately \$726,000, in the aggregate, for professional services it rendered for the audit of the Company's consolidated financial statements and audits of subsidiary company statutory reports for the fiscal year ended December 31, 2022 and the reviews of the interim financial statements included in our quarterly reports on Form 10-Q filed during the fiscal year ended December 31, 2022. The Company paid DHG approximately \$450,000, in the aggregate, for professional services it rendered for the audit of the Company's consolidated financial statements and audits of subsidiary company statutory reports for the fiscal year ended December 31, 2021 and the reviews of the interim financial statements included in our quarterly reports on Form 10-Q during the fiscal year ended December 31, 2021.

Audit-Related Fees

The Company has paid or expects to pay FORVIS (as successor to DHG) approximately \$30,000 to audit the December 31, 2022 financial statements of The Atlantic American Corporation 401(k) Retirement Savings Plan (the "Plan"). During the fiscal year ended December 31, 2022, the Company paid DHG approximately \$28,000 to audit the December 31, 2021 financial statements of the Plan. During the fiscal year ended December 31, 2021, the Company paid DHG approximately \$26,000 for the audit of the December 31, 2020 financial statements of the Plan.

Tax Fees

There were no tax fees paid to FORVIS or DHG in 2022 or 2021.

All Other Fees

Neither FORVIS nor DHG provided any other category of products and services to the Company during the fiscal years ended December 31, 2022 or 2021 and, accordingly, no other fees were paid thereto in either 2022 or 2021.

The Audit Committee considers whether the provision of non-audit services by the Company's independent registered public accounting firm is compatible with maintaining auditor independence. All audit and non-audit services to be performed by the Company's independent registered public accounting firm must be, and for 2022 and 2021 were, approved in advance by the Audit Committee. Pursuant to the Audit Committee's Audit and Non-Audit Services Pre-Approval Policy (the "Policy") and as permitted by SEC rules, the Audit Committee may delegate pre-approval authority to any of its members, provided that any service approved in this manner is reported to the full Audit Committee at its next meeting.

The Policy provides for a general pre-approval of certain specifically enumerated services that are to be provided within specified fee levels. With respect to requests to provide specifically enumerated services not specifically pre-approved pursuant to such general grant, such requests must be submitted to the Audit Committee by both the independent registered public accounting firm and the CFO, and must include a joint statement as to whether, in their view, the request is consistent with SEC rules on auditor independence. Such requests must also be specific as to the nature of the proposed service, the proposed fee and any other details the Audit Committee may request.

PART IV**Item 15. Exhibits and Financial Statement Schedules**

(a) List of documents filed as part of this report:

1. Financial Statements:

See Index to Financial Statements contained in Item 8 hereof.

2. Financial Statement Schedules:

Schedule II - Condensed financial information of the registrant

Schedule III - Supplementary insurance information of the registrant

Schedule IV - Reinsurance information for the registrant

Schedule VI - Supplemental information concerning property-casualty insurance operations of the registrant

Schedules other than those listed above are omitted as they are not required or are not applicable, or the required information is shown in the financial statements or notes thereto. Columns omitted from schedules filed have been omitted because the information is not applicable.

3. Exhibits *:

3.1	Restated Articles of Incorporation of the registrant, as amended [incorporated by reference to Exhibit 3.1 to the registrant's Form 10-K for the year ended December 31, 2008].
3.2	Restated Bylaws of the registrant, as amended [incorporated by reference to Exhibit 3.1 to the registrant's Form 8-K filed on March 4, 2016].
4.1	Description of the registrant's common stock registered pursuant to section 12 of the Securities Exchange Act of 1934 [incorporated by reference to Exhibit 4.1 to the registrant's Form 10-K filed on March 24, 2020].
10.01	Management Agreement, dated July 1, 1993, between the registrant and Atlantic American Life Insurance Company and Bankers Fidelity Life Insurance Company [incorporated by reference to Exhibit 10.41 to the registrant's Form 10-Q for the quarter ended September 30, 1993].
10.02	Tax Allocation Agreement, dated as of January 4, 2016, between the registrant and the registrant's subsidiaries [incorporated by reference to Exhibit 10.02 to the registrant's Form 10-K for the year ended December 31, 2017].
10.03**	Atlantic American Corporation 2012 Nonqualified Stock Purchase Plan [incorporated by reference to Exhibit 99.1 to the registrant's Form S-8 (File No. 333-183207) filed on August 10, 2012].
10.04**	Atlantic American Corporation 2012 Equity Incentive Plan [incorporated by reference to Exhibit 10.1 to the registrant's Form 10-Q for the quarter ended March 31, 2013].
10.05	Lease Agreement, dated as of November 1, 2007, between Georgia Casualty & Surety Company, Bankers Fidelity Life Insurance Company, Atlantic American Corporation and Delta Life Insurance Company [incorporated by reference to Exhibit 10.10 to the registrant's Form 10-K for the year ended December 31, 2007].
10.06	First Amendment to Lease Agreement, dated as of March 31, 2008, between Georgia Casualty & Surety Company, Bankers Fidelity Life Insurance Company, Atlantic American Corporation and Delta Life Insurance Company [incorporated by reference to Exhibit 10.2 to the registrant's Form 10-Q for the quarter ended March 31, 2008].
10.07	Assignment and Assumption of Leases and Contracts, dated as of December 21, 2022, by and between Delta Life Insurance Company and 4370 Peachtree LLC.
10.08**	Employment and Transition Agreement with Fixed Determination Date, dated as of June 14, 2017 by and between John G. Sample, Jr. and the registrant [incorporated by reference to Exhibit 10.07 to the registrant's Form 10-K for the year ended December 31, 2017].
10.09	Revolving Credit Agreement, dated as of May 12, 2021, by and between Atlantic American Corporation and Truist Bank [incorporated by reference to Exhibit 10.1 to the registrant's Form 8-K filed with the SEC on May 13, 2021].
10.10**	Atlantic American Corporation 2022 Equity and Incentive Compensation Plan [incorporated by reference to Exhibit 10.1 to the registrant's Form 8-K filed on May 31, 2022].
14.1	Code of Business Conduct and Ethics [incorporated by reference to Exhibit 14.1 to the registrant's Form 10-K for the year ended December 31, 2003].
21.1	Subsidiaries of the registrant [incorporated by reference to Exhibit 21.1 to the registrant's Form 10-K for the year ended December 31, 2015].
23.1	Consent of FORVIS LLP, Independent Registered Public Accounting Firm.
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).
101.SCH	Inline XBRL Taxonomy Extension Schema.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

* The registrant agrees to furnish to the Commission upon request a copy of any instruments defining the rights of security holders of the registrant that may be omitted from filing in accordance with the Commission’s rules and regulations.

** Management contract, compensatory plan or arrangement.

Item 16. Form 10-K Summary

None.

SIGNATURES

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

ATLANTIC AMERICAN CORPORATION
(Registrant)

By: /s/ J. Ross Franklin
J. Ross Franklin
Vice President and Chief Financial Officer

Date: June 30, 2023

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

Signature	Title	Date
<u>/s/ Hilton H. Howell, Jr.</u> HILTON H. HOWELL, JR.	President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	June 30, 2023
<u>/s/ J. Ross Franklin</u> J. ROSS FRANKLIN	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	June 30, 2023
<u>/s/ Robin R. Howell</u> ROBIN R. HOWELL	Director	June 30, 2023
<u>/s/ Mark E. Preisinger</u> MARK E. PREISINGER	Director	June 30, 2023
<u>/s/ Joseph M. Scheerer</u> JOSEPH M. SCHEERER	Director	June 30, 2023
<u>/s/ Scott G. Thompson</u> SCOTT G. THOMPSON	Director	June 30, 2023
<u>/s/ D. Keehln Wheeler</u> D. KEEHLN WHEELER	Director	June 30, 2023

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
ATLANTIC AMERICAN CORPORATION
(Parent Company Only)
BALANCE SHEETS
ASSETS

	December 31,	
	2022	2021
	(In thousands)	
Cash and cash equivalents	\$ 2,680	\$ 1,718
Investments	2,278	2,749
Investment in subsidiaries	113,079	164,535
Investments in unconsolidated trusts	1,238	1,238
Deferred tax asset, net	14,163	1,237
Income taxes receivable from subsidiaries	1,951	2,171
Other assets	6,681	5,791
Total assets	<u>\$ 142,070</u>	<u>\$ 179,439</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Other payables	\$ 4,130	\$ 4,415
Revolving credit facility	2,009	—
Junior subordinated debentures	33,738	33,738
Total liabilities	<u>39,877</u>	<u>38,153</u>
Shareholders' equity	102,193	141,286
Total liabilities and shareholders' equity	<u>\$ 142,070</u>	<u>\$ 179,439</u>

See accompanying report of independent registered public accounting firm.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

**ATLANTIC AMERICAN CORPORATION
(Parent Company Only)**

STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2022	2021
	(In thousands)	
REVENUE		
Fee income from subsidiaries	\$ 7,624	\$ 7,380
Distributed earnings from subsidiaries	7,200	8,400
Unrealized gains (losses) on equity securities, net	(484)	230
Other	93	(247)
Total revenue	14,433	15,763
GENERAL AND ADMINISTRATIVE EXPENSES	13,583	13,654
INTEREST EXPENSE	1,952	1,387
	(1,102)	722
INCOME TAX BENEFIT ⁽¹⁾	(3,934)	(2,840)
	2,832	3,562
EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARIES, NET	(1,307)	719
NET INCOME	\$ 1,525	\$ 4,281

- (1) Under the terms of a tax-sharing agreement, income tax provisions for the subsidiary companies are computed on a separate company basis. Accordingly, the Company's income tax benefit results from the utilization of the Parent's separate return loss to reduce the consolidated taxable income of the Company.

See accompanying report of independent registered public accounting firm.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
ATLANTIC AMERICAN CORPORATION
(Parent Company Only)

STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2022	2021
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 1,525	\$ 4,281
Adjustments to reconcile net income to net cash provided by operating activities:		
Unrealized losses (gains) on equity securities, net	484	(230)
Depreciation and amortization	515	538
Compensation expense related to share awards	134	211
Earnings from equity method investees	(294)	—
Equity in undistributed earnings of subsidiaries, net	1,307	(719)
Decrease (increase) in intercompany taxes	220	(489)
Deferred income tax benefit	(2,336)	(1,058)
(Decrease) increase in accounts payable and accrued expenses	(285)	63
Other, net	(1,348)	(1,966)
Net cash (used in) provided by operating activities	(78)	631
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(45)	(49)
Net cash used in investing activities	(45)	(49)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends on Series D preferred stock	(399)	(399)
Payment of dividends on common stock	(408)	(408)
Proceeds from shares issued under stock plans	—	6
Proceeds from revolving credit facility, net	2,000	—
Treasury stock acquired — net employee share-based compensation	(108)	(153)
Net cash provided by (used in) financing activities	1,085	(954)
Net increase (decrease) in cash	962	(372)
Cash and cash equivalents at beginning of year	1,718	2,090
Cash and cash equivalents at end of year	\$ 2,680	\$ 1,718
Supplemental disclosure:		
Cash paid for interest	\$ 1,794	\$ 1,389
Cash paid for income taxes	\$ 2,764	\$ 3,202
Intercompany tax settlement from subsidiaries	\$ 3,946	\$ 6,734

See accompanying report of independent registered public accounting firm.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION

Segment	Deferred Acquisition Costs	Future Policy Benefits, Losses, Claims and Loss Reserves	Unearned Premiums	Other Policy Claims and Benefits Payable
(In thousands)				
December 31, 2022:				
Bankers Fidelity	\$ 39,880	\$ 110,238	\$ 2,814	\$ 1,255
American Southern	2,401	62,810	25,534	—
	<u>\$ 42,281</u>	<u>\$ 173,048⁽¹⁾</u>	<u>\$ 28,348</u>	<u>\$ 1,255</u>
December 31, 2021:				
Bankers Fidelity	\$ 36,308	\$ 115,712	\$ 3,689	\$ 1,360
American Southern	2,390	57,256	23,780	—
	<u>\$ 38,698</u>	<u>\$ 172,968⁽²⁾</u>	<u>\$ 27,469</u>	<u>\$ 1,360</u>

(1) Includes future policy benefits of \$85,564 and losses and claims of \$87,484.

(2) Includes future policy benefits of \$87,348 and losses and claims of \$85,620.

See accompanying report of independent registered public accounting firm.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION

Segment	Premium Revenue	Net Investment Income	Benefits, Claims, Losses and Settlement Expenses	Amortization of Deferred Acquisition Costs	Other Operating Expenses	Casualty Premiums Written
(In thousands)						
December 31, 2022:						
Bankers Fidelity	\$ 115,164	\$ 5,414	\$ 76,281	\$ 9,295	\$ 24,627	\$ —
American Southern	70,276	4,147	47,175	10,150	10,011	72,671
Corporate & other	—	371	—	—	8,216	—
	<u>\$ 185,440</u>	<u>\$ 9,932</u>	<u>\$ 123,456</u>	<u>\$ 19,445</u>	<u>\$ 42,854</u>	<u>\$ 72,671</u>
December 31, 2021:						
Bankers Fidelity	\$ 116,234	\$ 5,204	\$ 87,261	\$ 13,465	\$ 21,250	\$ —
American Southern	67,982	3,570	44,433	10,599	9,544	69,403
Corporate & other	—	(246)	—	—	7,700	—
	<u>\$ 184,216</u>	<u>\$ 8,528</u>	<u>\$ 131,694</u>	<u>\$ 24,064</u>	<u>\$ 38,494</u>	<u>\$ 69,403</u>

See accompanying report of independent registered public accounting firm.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
REINSURANCE INFORMATION

	<u>Direct Amount</u>	<u>Ceded to Other Companies</u>	<u>Assumed From Other Companies</u>	<u>Net Amounts</u>	<u>Percentage of Amount Assumed to Net</u>
(Dollars in thousands)					
Year ended December 31, 2022:					
Life insurance in force	\$ 670,610	\$ (9,597)	\$ —	\$ 661,013	
Premiums —					
Bankers Fidelity	\$ 176,995	\$ (61,839)	\$ 8	\$ 115,164	0.0%
American Southern	51,844	(6,546)	24,978	70,276	35.5%
Total premiums	<u>\$ 228,839</u>	<u>\$ (68,385)</u>	<u>\$ 24,986</u>	<u>\$ 185,440</u>	<u>13.5%</u>
Year ended December 31, 2021:					
Life insurance in force	\$ 416,480	\$ (9,487)	\$ —	\$ 406,993	
Premiums —					
Bankers Fidelity	\$ 183,382	\$ (67,155)	\$ 7	\$ 116,234	0.0%
American Southern	52,424	(6,511)	22,069	67,982	32.5%
Total premiums	<u>\$ 235,806</u>	<u>\$ (73,666)</u>	<u>\$ 22,076</u>	<u>\$ 184,216</u>	<u>12.0%</u>

See accompanying report of independent registered public accounting firm.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL INFORMATION CONCERNING
PROPERTY-CASUALTY INSURANCE OPERATIONS

Year Ended	Deferred Policy Acquisition Costs	Reserves	Unearned Premiums	Earned Premiums	Net Investment Income	Claims and Claim Adjustment Expenses Incurred Related To		Amortization of Deferred Acquisition Costs	Paid Claims and Claim Adjustment Expenses	Premiums Written
						Current Year	Prior Years			
(In thousands)										
December 31, 2022	\$ 2,401	\$ 62,810	\$ 25,534	\$ 70,276	\$ 4,147	\$ 48,692	\$ (1,517)	\$ 10,150	\$ 42,948	\$ 72,671
December 31, 2021	\$ 2,390	\$ 57,256	\$ 23,780	\$ 67,982	\$ 3,570	\$ 48,678	\$ (4,245)	\$ 10,599	\$ 40,370	\$ 69,403

See accompanying report of independent registered public accounting firm.

ASSIGNMENT AND ASSUMPTION OF LEASES AND CONTRACTS

THIS ASSIGNMENT AND ASSUMPTION OF LEASES AND CONTRACTS (“**Assignment**”) is made as of December 21, 2022, by and between **DELTA LIFE INSURANCE CO.**, a Georgia corporation (“**Assignor**”), and **4370 PEACHTREE LLC**, a Georgia limited liability company (“**Assignee**”).

W I T N E S S E T H:

A. On even date herewith, Assignor has transferred to Assignee fee simple title to that certain real property described on **Exhibit “A”** attached hereto (the “**Property**”).

B. Concurrently with the transfer of fee simple title to the Property, the parties desire for Assignor to assign to Assignee, and for Assignee to assume, any and all of Assignor’s right, title and interest in and to the leases and contracts and all related documents (collectively, the “**Leases and Contracts**”) that currently affect the Property.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Assignor hereby assigns, sells, transfers, sets over and delivers unto Assignee all of Assignor’s estate, right, title and interest in and to the Leases and Contracts and Assignee hereby accepts such assignment.
2. Assignee hereby assumes the performance of all of the terms, covenants and conditions imposed upon Assignor as landlord and owner under the Leases and Contracts accruing or arising on or after the date hereof.
3. This Assignment may be executed in counterparts, each of which shall be deemed an original, but all of which, together, shall constitute one and the same instrument. This Assignment may be signed and/or transmitted electronically, which shall be binding on the parties with the same effect as original signatures.
4. This Assignment shall be binding upon and inure to the benefit of the successors, assignees, personal representatives, heirs and legatees of all the respective parties hereto.
5. This Assignment shall be governed by, interpreted under, and construed and enforceable in accordance with, the laws of the State of Georgia, without regard to conflicts of law principles.

[SIGNATURES COMMENCE ON NEXT PAGE]

IN WITNESS WHEREOF, Assignor and Assignee have executed and delivered this Agreement as of the day and year first written above.

ASSIGNOR:

DELTA LIFE INSURANCE CO., a Georgia corporation

By: /s/ Hilton Hatchett Howell, Jr.
Name: Hilton Hatchett Howell, Jr.
Title: CEO

[Signature Page Continued on Following Page]

ASSIGNEE:

4370 PEACHTREE LLC,
a Georgia limited liability company

By: /s/ Julie M. Wyrick

Name: Julie M. Wyrick

Title: Manager

ALL THAT TRACT OR PARCEL OF LAND lying and being in Land Lot 273 of the 18th District of DeKalb County, Georgia and being more particularly described as follows:

BEGINNING AT THE IRON PIN located on the northwest line of the right-of-way of Peachtree Road (a 100-foot right-of-way at that point) 234.64 feet as measured south 34 degrees 02 minutes 20 seconds west from the point formed by the intersection of the northwest line of said right-of-way of Peachtree Road with the southwest line of the right-of-way of Hermance Drive (a 60-foot right-of-way); and running thence south 34 degrees 02 minutes 20 seconds west, along the northwest line of said right-of-way of Peachtree Road, a distance of 271.32 feet to an iron pin; running thence south 54 degrees 14 minutes 36 seconds east, along the northwest line of said right-of-way of Peachtree Road, a distance of 20.01 feet to a point located on the northwest line of said right-of-way of Peachtree Road (a 60-foot right-of-way at that point); running thence south 34 degrees 02 minutes 20 seconds west, along the northwest line of said right-of-way of Peachtree Road, a distance of 139.97 feet to a point; running thence north 54 degrees 11 minutes 00 seconds west a distance of 397.47 feet to an iron pin; running thence north 55 degrees 54 minutes 03 seconds west a distance of 20.0 feet to an iron pin; running thence north 33 degrees 16 minutes 50 seconds east a distance of 140.20 feet to an iron pin; running thence north 54 degrees 14 minutes 36 seconds west a distance of 70.30 feet to an iron pin; running thence north 34 degrees 02 minutes 20 seconds east a distance of 468.51 feet to an iron pin located on the southwest line of said right-of-way of Hermance Drive; running thence south 58 degrees 47 minutes 10 seconds east, along the southwest line of said right-of-way of Hermance Drive, a distance of 274.99 feet to an iron pin; running thence south 34 degrees 05 minutes 08 seconds west a distance of 230.0 feet to an iron pin; running thence south 57 degrees 25 minutes 15 seconds east a distance of 195.0 feet to the iron pin located at the POINT OF BEGINNING; being property improved with two office buildings and shown as containing 5.5542 acres in area on a plat of survey prepared for Delta Life Insurance Co. by American Engineers & Surveyors, Inc., bearing the certification of David A. Burre, Georgia Registered Land Surveyor No. 1965, dated October 6, 1976 and revised May 17, 1977.

CONSENT OF FORVIS, LLP
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Atlantic American Corporation
Atlanta, Georgia

We consent to the incorporation by reference in the registration statements (Nos. 333-183207 and 333-183210) on Form S-8 of Atlantic American Corporation of our report dated June 30, 2023, with respect to the consolidated financial statements and schedules of Atlantic American Corporation as of and for the year ended December 31, 2022, which report appears in Atlantic American Corporation's Annual Report on Form 10-K.

/s/ FORVIS, LLP (Formerly, Dixon Hughes Goodman LLP)
Atlanta, Georgia
June 30, 2023

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Hilton H. Howell, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Atlantic American Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 30, 2023

/s/ Hilton H. Howell, Jr.
Hilton H. Howell, Jr.
President and Chief Executive Officer

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, J. Ross Franklin, certify that:

1. I have reviewed this annual report on Form 10-K of Atlantic American Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 30, 2023

/s/ J. Ross Franklin

J. Ross Franklin
Vice President and
Chief Financial Officer

Certifications Pursuant to §906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Annual Report on Form 10-K of Atlantic American Corporation (the “Company”) for the year ended December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies, that, to such officer’s knowledge:

- (1) The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: June 30, 2023

/s/ Hilton H. Howell, Jr.

Hilton H. Howell, Jr.
President and Chief Executive Officer

Date: June 30, 2023

/s/ J. Ross Franklin

J. Ross Franklin
Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
