UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2022

or

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

Commission File Number 0-3722

ATLANTIC AMERICAN CORPORATION

(*Exact name of registrant as specified in its charter)*

Georgia	**58-1027114**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
4370 Peachtree Road, N.E., Atlanta, Georgia	**30319**
(Address of principal executive offices)	*(Zip Code)*

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $1.00 per share	AAME	NASDAQ Global Market

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

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

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

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

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

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

The total number of shares of the registrant's Common Stock, $1 par value, outstanding on April 30, 2022 was 20,403,576**.**

ATLANTIC AMERICAN CORPORATION

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FORWARD-LOOKING STATEMENTS

This report contains and references certain information that constitutes forward-looking statements as that term is defined in the federal securities laws. Forward-looking statements are all statements other than those of historical fact. Such forward-looking statements are made based upon management's current assessments of various risks and uncertainties, as well as assumptions made in accordance with the "safe harbor" provisions of the federal securities laws. Forward-looking statements are inherently subject to various risks and uncertainties and the Company's actual results could differ materially from the results expressed in or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, those described in Part I, Item 1A. "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2021 and other subsequent filings made by the Company from time to time with the Securities and Exchange Commission. In addition, other risks and uncertainties not known by us, or that we currently determine to not be material, may materially adversely affect our financial condition, results of operations or cash flows. The Company undertakes no obligation to update any forward-looking statement as a result of subsequent developments, changes in underlying assumptions or facts, or otherwise, except as may be required by law.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ATLANTIC AMERICAN CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	Unaudited March 31, 2022	December 31, 2021
ASSETS		
Cash and cash equivalents	$ 15,612	$ 24,753
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost: $239,452 and $238,597)	240,038	260,986
Equity securities, at fair value (cost: $4,906 and $4,907)	21,316	19,124
Other invested assets (cost: $918 and $698)	420	198
Policy loans	1,814	1,858
Real estate	38	38
Investment in unconsolidated trusts	1,238	1,238
Total investments	264,864	283,442
Receivables:		
Reinsurance	27,036	27,416
Insurance premiums and other (net of allowance for doubtful accounts: $185 and $188)	11,550	14,959
Deferred income taxes, net	5,447	1,755
Deferred acquisition costs	39,875	38,698
Other assets	8,103	8,719
Intangibles	2,544	2,544
Total assets	$ 375,031	$ 402,286
LIABILITIES AND SHAREHOLDERS' EQUITY		
Insurance reserves and policyholder funds:		
Future policy benefits	$ 85,541	$ 87,348
Unearned premiums	19,834	27,469
Losses and claims	85,235	85,620
Other policy liabilities	961	1,360
Total insurance reserves and policyholder funds	191,571	201,797
Accounts payable and accrued expenses	23,299	25,465
Junior subordinated debenture obligations, net	33,738	33,738
Total liabilities	248,608	261,000
Commitments and contingencies (Note 11)		
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; shares issued: 22,400,894; shares outstanding: 20,403,576 and 20,378,576	22,401	22,401
Additional paid-in capital	57,443	57,441
Retained earnings	53,599	51,264
Accumulated other comprehensive income	463	17,688
Unearned stock grant compensation	(117)	(73)
Treasury stock, at cost: 1,997,318 and 2,022,318 shares	(7,421)	(7,490)
Total shareholders' equity	126,423	141,286
Total liabilities and shareholders' equity	$ 375,031	$ 402,286

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

ATLANTIC AMERICAN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited; In thousands, except per share data)

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Revenue:		
Insurance premiums, net	$ 47,081	$ 46,090
Net investment income	2,340	2,113
Realized investment gains (losses), net	(10)	121
Unrealized gains on equity securities, net	2,193	744
Other income	4	7
Total revenue	51,608	49,075
Benefits and expenses:		
Insurance benefits and losses incurred	31,169	33,272
Commissions and underwriting expenses	12,836	12,564
Interest expense	354	346
Other expense	3,453	3,440
Total benefits and expenses	47,812	49,622
Income (loss) before income taxes	3,796	(547)
Income tax expense (benefit)	954	(116)
Net income (loss)	2,842	(431)
Preferred stock dividends	(99)	(99)
Net income (loss) applicable to common shareholders	$ 2,743	$ (530)
Earnings (loss) per common share (basic)	$ 0.13	$ (0.03)
Earnings (loss) per common share (diluted)	$ 0.13	$ (0.03)

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

ATLANTIC AMERICAN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited; In thousands)

	Three Months Ended March 31,	
	2022	2021
Net income (loss)	$ 2,842	$ (431)
Other comprehensive loss:		
Available-for-sale fixed maturity securities:		
Gross unrealized holding loss arising in the period	(21,813)	(13,747)
Related income tax effect	4,581	2,887
Subtotal	(17,232)	(10,860)
Less: reclassification adjustment for net realized (gains) losses included in net income (loss)	10	(121)
Related income tax effect	(3)	25
Subtotal	7	(96)
Total other comprehensive loss, net of tax	(17,225)	(10,956)
Total comprehensive loss	$ (14,383)	$ (11,387)

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

ATLANTIC AMERICAN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS’ EQUITY
(Unaudited; In thousands except share and per share data)

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Preferred stock:		
Balance, beginning of period	$ 55	$ 55
Balance, end of period	55	55
Common stock:		
Balance, beginning of period	22,401	22,401
Balance, end of period	22,401	22,401
Additional paid-in capital:		
Balance, beginning of period	57,441	57,437
Restricted stock grants, net of forfeitures	2	—
Issuance of shares under stock plans	—	1
Balance, end of period	57,443	57,438
Retained earnings:		
Balance, beginning of period	51,264	47,790
Net income (loss)	2,842	(431)
Dividends on common stock	(408)	(408)
Dividends accrued on preferred stock	(99)	(99)
Balance, end of period	53,599	46,852
Accumulated other comprehensive income:		
Balance, beginning of period	17,688	25,000
Other comprehensive loss, net of tax	(17,225)	(10,956)
Balance, end of period	463	14,044
Unearned Stock Grant Compensation:		
Balance, beginning of period	(73)	(284)
Restricted stock grants, net of forfeitures	(71)	—
Amortization of unearned compensation	27	67
Balance, end of period	(117)	(217)
Treasury Stock:		
Balance, beginning of period	(7,490)	(7,339)
Restricted stock grants, net of forfeitures	69	—
Issuance of shares under stock plans	—	1
Balance, end of period	(7,421)	(7,338)
Total shareholders’ equity	$ 126,423	$ 133,235
Dividends declared on common stock per share	$ 0.02	$ 0.02
Common shares outstanding:		
Balance, beginning of period	20,378,576	20,415,243
Issuance of shares under stock plans	—	539
Restricted stock grants, net of forfeitures	25,000	—
Balance, end of period	20,403,576	20,415,782

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

ATLANTIC AMERICAN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; In thousands)

	Three Months Ended March 31,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 2,842	$ (431)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
(Additions to) amortization of acquisition costs, net	(1,177)	1,513
Realized investment losses (gains), net	10	(121)
Unrealized gains on equity securities, net	(2,193)	(744)
Earnings from equity method investees	(2)	—
Compensation expense related to share awards	27	67
Depreciation and amortization	240	264
Deferred income tax expense (benefit)	886	(492)
Decrease in receivables, net	3,789	4,559
Decrease in insurance reserves and policyholder funds	(10,226)	(6,693)
Decrease in accounts payable and accrued expenses	(2,676)	(2,250)
Other, net	473	(1,716)
Net cash used in operating activities	(8,007)	(6,044)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investments sold	44	13,266
Proceeds from investments matured, called or redeemed	3,875	4,506
Investments purchased	(5,052)	(10,564)
Additions to property and equipment	(1)	(39)
Net cash (used in) provided by investing activities	(1,134)	7,169
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from shares issued under stock plans	—	2
Net cash provided by financing activities	—	2
Net (decrease) increase in cash and cash equivalents	(9,141)	1,127
Cash and cash equivalents at beginning of period	24,753	19,319
Cash and cash equivalents at end of period	$ 15,612	$ 20,446
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 346	$ 351

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

ATLANTIC AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; Dollars in thousands, except per share amounts)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Atlantic American Corporation (the "Parent") and its subsidiaries (collectively with the Parent, the "Company"). The Parent's primary operating subsidiaries, American Southern Insurance Company and American Safety Insurance Company (together known as "American Southern") and Bankers Fidelity Life Insurance Company and Bankers Fidelity Assurance Company (together known as "Bankers Fidelity"), operate in two principal business units. American Southern operates in the property and casualty insurance market, while Bankers Fidelity operates in the life and health insurance market. All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for audited annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The unaudited condensed consolidated financial statements included herein and these related notes should be read in conjunction with the Company's consolidated financial statements, and the notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 (the "2021 Annual Report"). The Company's financial condition and results of operations and cash flows as of and for the three month period ended March 31, 2022 are not necessarily indicative of the financial condition or results of operations and cash flows that may be expected for the year ending December 31, 2022 or for any other future period.

The Company's significant accounting policies have not changed materially from those set out in the 2021 Annual Report, except as noted below for the adoption of new accounting standards.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Note 2. Recently Issued Accounting Standards

Future Adoption of New Accounting Standards

For more information regarding accounting standards that the Company has not yet adopted, see the "Recently Issued Accounting Standards - Future Adoption of New Accounting Standards" section of Note 1 of Notes to Consolidated Financial Statements in the 2021 Annual Report.

Note 3. 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 March 31, 2022 and December 31, 2021.

Fixed maturities were comprised of the following:

	March 31, 2022			
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost or Amortized Cost
Fixed maturities:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	$ 47,852	$ 172	$ 2,098	$ 49,778
Obligations of states and political subdivisions	11,058	228	63	10,893
Corporate securities:				
Utilities and telecom	27,051	955	695	26,791
Financial services	65,895	1,868	1,250	65,277
Other business – diversified	36,107	1,255	823	35,675
Other consumer – diversified	51,832	1,701	714	50,845
Total corporate securities	180,885	5,779	3,482	178,588
Redeemable preferred stocks:				
Other consumer – diversified	243	50	—	193
Total redeemable preferred stocks	243	50	—	193
Total fixed maturities	$ 240,038	$ 6,229	$ 5,643	$ 239,452

	December 31, 2021			
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost or 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 $10,879 and $11,169 and included in the tables above were on deposit with insurance regulatory authorities as of March 31, 2022 and December 31, 2021, respectively, in accordance with statutory requirements. Additionally, bonds having an amortized cost of $4,762 and $5,371 and included in the tables above were pledged as collateral to the Federal Home Loan Bank of Atlanta ("FHLB") at March 31, 2022 and December 31, 2021, respectively.

Equity securities were comprised of the following:

	March 31, 2022			
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost or Amortized Cost
Equity securities:				
Common and non-redeemable preferred stocks:				
Financial services	$ 878	$ 605	$ —	$ 273
Other business – diversified	20,438	15,805	—	4,633
Total equity securities	$ 21,316	$ 16,410	$ —	$ 4,906

	December 31, 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	$ 19,124	$ 14,217	$ —	$ 4,907

The carrying value and amortized cost of the Company's investments in fixed maturities at March 31, 2022 and December 31, 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.

	March 31, 2022		December 31, 2021	
	Carrying Value	Amortized Cost	Carrying Value	Amortized Cost
Due in one year or less	$ 1,407	$ 1,403	$ 1,734	$ 1,730
Due after one year through five years	29,051	28,969	24,926	23,593
Due after five years through ten years	65,067	65,159	73,725	68,338
Due after ten years	107,568	105,175	122,045	106,181
Asset backed securities	36,945	38,746	38,556	38,755
Totals	$ 240,038	$ 239,452	$ 260,986	$ 238,597

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 March 31, 2022 and December 31, 2021.

	March 31, 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	$ 33,399	$ 1,555	$ 5,041	$ 543	$ 38,440	$ 2,098
Obligations of states and political subdivisions	3,394	63	—	—	3,394	63
Corporate securities	65,680	2,732	4,978	750	70,658	3,482
Total temporarily impaired securities	$ 102,473	$ 4,350	$ 10,019	$ 1,293	$ 112,492	$ 5,643

	December 31, 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	$ 33,467	$ 465	$ 4,761	$ 252	$ 38,228	$ 717

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 three month periods ended March 31, 2022 and 2021.

As of March 31, 2022 and December 31, 2021, there were 141 and 61 securities, respectively, in an unrealized loss position which primarily included certain of the Company's investments in fixed maturities within the utilities and telecom, financial services, other diversified business and other diversified consumer sectors. The increase in the number of securities in an unrealized loss position during the three month period ended March 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 March 31, 2022.

The following table is a summary of realized investment gains (losses) for the three month period ended March 31, 2022 and 2021.

	Three Months Ended March 31, 2022			
	Fixed Maturities	Equity Securities	Other Invested Assets	Total
Gains	$ —	$ —	$ —	$ —
Losses	(10)	—	—	(10)
Realized investment losses, net	$ (10)	$ —	$ —	$ (10)

	Three Months Ended March 31, 2021			
	Fixed Maturities	Equity Securities	Other Invested Assets	Total
Gains	$ 121	$ —	$ —	$ 121
Losses	—	—	—	—
Realized investment gains, net	$ 121	$ —	$ —	$ 121

The following table presents the portion of unrealized gains related to equity securities still held for the three month period ended March 31, 2022 and 2021.

	Three Months Ended March 31,	
	2022	2021
Net realized and unrealized gains recognized during the period on equity securities	$ 2,193	$ 744
Less: Net realized gains recognized during the period on equity securities sold during the period	—	—
Unrealized gains recognized during the reporting period on equity securities, net	$ 2,193	$ 744

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 $420 and $198 as of March 31, 2022 and December 31, 2021, respectively. The Company's VIE interests, carried as a part of investment in unconsolidated trusts, totaled $1,238 as of March 31, 2022 and December 31, 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 $1,658 and $1,436, as of March 31, 2022 and December 31, 2021, respectively. As of March 31, 2022 and December 31, 2021, the Company had outstanding commitments totaling $12,777 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 4. Fair Values 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 two fixed maturity securities and one equity security. As of March 31, 2022 and December 31, 2021, the value of the fixed maturities valued using Level 3 criteria was $0 and $250, respectively. As of March 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 is valued at cost. The use of different criteria or assumptions regarding data may have yielded materially different valuations.

As of March 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	$ —	$ 240,038	$ —	$ 240,038
Equity securities	21,160	—	156	21,316
Cash equivalents	11,534	—	—	11,534
Total	$ 32,694	$ 240,038	$ 156	$ 272,888

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 March 31, 2022 and December 31, 2021.

	Level in Fair Value Hierarchy (1)	March 31, 2022 Carrying Amount	March 31, 2022 Estimated Fair Value	December 31, 2021 Carrying Amount	December 31, 2021 Estimated Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 15,612	$ 15,612	$ 24,753	$ 24,753
Fixed maturities	(1)	240,038	240,038	260,986	260,986
Equity securities	(1)	21,316	21,316	19,124	19,124
Other invested assets	Level 3	420	420	198	198
Policy loans	Level 2	1,814	1,814	1,858	1,858
Investment in unconsolidated trusts	Level 2	1,238	1,238	1,238	1,238
Liabilities:					
Junior subordinated debentures, net	Level 2	33,738	33,115	33,738	33,728

(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 5. Insurance Reserves for Losses and Claims

The roll-forward of insurance reserves for losses and claims for the three months ended March 31, 2022 and 2021 is as follows:

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Beginning insurance reserves for losses and claims, gross	$ 85,620	$ 79,147
Less: Reinsurance recoverable on unpaid losses	(17,690)	(17,600)
Beginning insurance reserves for losses and claims, net	67,930	61,547
Incurred related to:		
Current accident year	32,542	32,928
Prior accident year development (1)	(1,523)(2)	475(3)
Total incurred	31,019	33,403
Paid related to:		
Current accident year	10,629	10,917
Prior accident years	19,966	20,984
Total paid	30,595	31,901
Ending insurance reserves for losses and claims, net	68,354	63,049
Plus: Reinsurance recoverable on unpaid losses	16,881	18,236
Ending insurance reserves for losses and claims, gross	$ 85,235	$ 81,285

(1) In establishing property and casualty reserves, the Company 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. Accordingly, the Company generally experiences reserve redundancies when analyzing the development of prior year losses in a current period.

(2) Prior years' development was primarily the result of favorable development in both the life and health and the property and casualty operations.

(3) 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. Partially offsetting the unfavorable development was favorable development in the property and casualty operations.

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

	Three Months Ended March 31,	
	2022	2021
Total incurred losses	$ 31,019	$ 33,403
Cash surrender value and matured endowments	362	247
Benefit reserve changes	(212)	(378)
Total insurance benefits and losses incurred	$ 31,169	$ 33,272

Note 6. 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 March 31, 2022, 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.

The financial structure of each of Atlantic American Statutory Trust I and II as of March 31, 2022 was as follows:

	Atlantic American Statutory Trust I	Atlantic American Statutory Trust II
JUNIOR SUBORDINATED DEBENTURES (1) (2)		
Principal amount owed March 31, 2022	$ 18,042	$ 23,196
Less: Treasury debt (3)	—	(7,500)
Net balance March 31, 2022	$ 18,042	$ 15,696
Net balance December 31, 2021	$ 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) On August 4, 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 7. Earnings (Loss) Per Common Share

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

	Three Months Ended March 31, 2022		
	Income	Weighted Average Shares (In thousands)	Per Share Amount
Basic Earnings Per Common Share:			
Net income	$ 2,842	20,380	
Less preferred stock dividends	(99)	—	
Net income applicable to common shareholders	2,743	20,380	$ 0.13
Diluted Earnings Per Common Share:			
Effect of Series D preferred stock	99	1,378	
Net income applicable to common shareholders	$ 2,842	21,758	$ 0.13

	Three Months Ended March 31, 2021		
	Loss	Weighted Average Shares (In thousands)	Per Share Amount
Basic and Diluted Loss Per Common Share:			
Net loss	$ (431)	20,415	
Less preferred stock dividends	(99)	—	
Net loss applicable to common shareholders	$ (530)	20,415	(0.03)

The assumed conversion of the Company's Series D preferred stock was excluded from the loss per common share calculation for three month period ended March 31, 2021 since its impact would have been antidilutive.

Note 8. 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. During the three month period ended March 31, 2022, a total of 25,000 restricted shares, with an estimated fair value of $69 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 for 2022 and 2021 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 2022 or 2021. Shares available for future grant at March 31, 2022 and December 31, 2021 were 910,200 and 935,200, respectively.

Note 9. Income Taxes

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

	Three Months Ended March 31,	
	2022	2021
Federal income tax provision at statutory rate of 21%	$ 797	$ (115)
Dividends-received deduction	(6)	(9)
Meals and entertainment	10	4
Parking disallowance	4	4
Penalties and fines	149	—
Income tax expense (benefit)	$ 954	$ (116)

The components of income tax expense (benefit) were:

	Three Months Ended March 31,	
	2022	2021
Current – Federal	$ 68	$ 376
Deferred – Federal	886	(492)
Total	$ 954	$ (116)

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 the three months ended March 31, 2022 and March 31, 2021 was $254.

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

	Three Months Ended March 31,	
Other information on operating leases:	2022	2021
Cash payments included in the measurement of lease liabilities reported in operating cash flows	$ 255	$ 251
Right-of-use assets included in other assets on the condensed consolidated balance sheet	3,963	4,664
Weighted average discount rate	6.8%	6.8%
Weighted average remaining lease term in years	4.6 years	5.6 years

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

	Lease Liability
Remainder of 2022	$ 776
2023	1,048
2024	1,065
2025	1,083
2026	942
Thereafter	—
Total undiscounted lease payments	4,914
Less: present value adjustment	717
Operating lease liability included in accounts payable and accrued expenses on the condensed consolidated balance sheet	$ 4,197

As of March 31, 2022, the Company has no operating leases that have not yet commenced.

Note 11. 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. Subsequent to March 31, 2022, the Company agreed to settle the matter through a consent order which included a penalty that has been recorded as a liability in the financial statements as of March 31, 2022.

Note 12. Segment Information

The Parent's primary insurance subsidiaries, American Southern and Bankers Fidelity, operate in two principal business units, each focusing on specific products. American Southern operates in the property and casualty insurance market, while Bankers Fidelity operates in the life and health insurance market. Each business unit is managed independently and is evaluated on its individual performance. The following sets forth the assets, revenue and income (loss) before income taxes for each business unit as of and for the periods ended 2022 and 2021.

Assets	March 31, 2022	December 31, 2021
American Southern	$ 141,480	$ 161,788
Bankers Fidelity	217,617	227,395
Corporate and Other	15,934	13,103
Total assets	$ 375,031	$ 402,286

	Three Months Ended March 31,	
Revenues	2022	2021
American Southern	$ 18,506	$ 17,526
Bankers Fidelity	32,889	31,540
Corporate and Other	213	9
Total revenue	$ 51,608	$ 49,075

	Three Months Ended March 31,	
Income (Loss) Before Income Taxes	2022	2021
American Southern	$ 2,085	$ 1,490
Bankers Fidelity	3,451	134
Corporate and Other	(1,740)	(2,171)
Income (loss) before income taxes	$ 3,796	$ (547)

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

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") as of and for three month period ended March 31, 2022. This discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included elsewhere herein, as well as with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 (the "2021 Annual Report").

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") and Bankers Fidelity Life Insurance Company and Bankers Fidelity Assurance Company (together known as "Bankers Fidelity"). Each operating company is managed separately, offers different products and is evaluated on its individual performance.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ significantly from those estimates. The Company has identified certain estimates that involve a higher degree of judgment and are subject to a significant degree of variability. The Company's critical accounting policies and the resultant estimates considered most significant by management are disclosed in the 2021 Annual Report. Except as disclosed in Note 2 of Notes to Condensed Consolidated Financial Statements, the Company's critical accounting policies are consistent with those disclosed in the 2021 Annual Report.

Overall Corporate Results

The following presents the Company's revenue, expenses and net income (loss) for the three month period ended March 31, 2022 and the comparable period in 2021:

	Three Months Ended March 31,	
	2022	2021
	(In thousands)	
Insurance premiums, net	$ 47,081	$ 46,090
Net investment income	2,340	2,113
Realized investment gains (losses), net	(10)	121
Unrealized gains on equity securities, net	2,193	744
Other income	4	7
Total revenue	51,608	49,075
Insurance benefits and losses incurred	31,169	33,272
Commissions and underwriting expenses	12,836	12,564
Interest expense	354	346
Other expense	3,453	3,440
Total benefits and expenses	47,812	49,622
Income (loss) before income taxes	$ 3,796	$ (547)
Net income (loss)	$ 2,842	$ (431)

Management also considers and evaluates performance by analyzing the non-GAAP measure operating income (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 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 and unrealized 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).

A reconciliation of net income (loss) to operating income (loss) for the three month period ended March 31, 2022 and the comparable period in 2021 is as follows:

Reconciliation of Non-GAAP Financial Measure	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
	(In thousands)	
Net income (loss)	$ 2,842	$ (431)
Income tax expense (benefit)	954	(116)
Realized investment (gains) losses, net	10	(121)
Unrealized gains on equity securities, net	(2,193)	(744)
Non-GAAP operating income (loss)	$ 1,613	$ (1,412)

On a consolidated basis, the Company had net income of $2.8 million, or $0.13 per diluted share, for the three month period ended March 31, 2022, compared to net loss of $0.4 million, or $0.03 per diluted share, for the three month period ended March 31, 2021. Premium revenue for the three month period ended March 31, 2022 increased $1.0 million, or 2.2%, to $47.1 million from $46.1 million in the three month period ended March 31, 2021. The increase in premium revenue was primarily attributable to an increase in the automobile physical damage line of business in the property and casualty operations. Also contributing to this increase in premium revenue was an increase in the life insurance premiums in the life and health operations.

Operating income increased $3.0 million in the three month period ended March 31, 2022 from the three month period ended March 31, 2021. The increase in operating income was primarily due to favorable loss experience in the property and casualty operations due to a decrease in the frequency and severity of claims within the automobile physical damage line of business. Also contributing to the increase in operating income was favorable loss experience in the life and health operations, primarily as a result of an increase in earned premium within the group lines of business.

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

American Southern

The following summarizes American Southern's premiums, losses, expenses and underwriting ratios for the three month period ended March 31, 2022 and the comparable period in 2021:

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
	(Dollars in thousands)	
Gross written premiums	$ 11,558	$ 11,462
Ceded premiums	(1,617)	(1,684)
Net written premiums	$ 9,941	$ 9,778
Net earned premiums	$ 17,343	$ 16,615
Insurance benefits and losses incurred	10,478	11,749
Commissions and underwriting expenses	5,943	4,286
Underwriting income	$ 922	$ 580
Loss ratio	60.4%	70.7%
Expense ratio	34.3	25.8
Combined ratio	94.7%	96.5%

Gross written premiums at American Southern increased $0.1 million, or 0.8%, during the three month period ended March 31, 2022 from the comparable period in 2021. 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 increases in the surety line of business. Partially offsetting the increase in gross written premiums was a decrease in premiums written in the auto liability line of business and retro premium adjustments.

Ceded premiums decreased $0.1 million, or 4.0%, during the three month period ended March 31, 2022 from the comparable period in 2021. The decrease in ceded premiums in 2022 was primarily due to a decrease in ceding rates for two large programs in the auto liability line of business.

The following presents American Southern's net earned premiums by line of business for the three month period ended March 31, 2022 and the comparable period in 2021:

	Three Months Ended March 31,	
	2022	2021
	(In thousands)	
Automobile liability	$ 7,625	$ 7,737
Automobile physical damage	6,023	5,534
General liability	1,429	1,253
Surety	1,465	1,317
Other lines	801	774
Total	$ 17,343	$ 16,615

Net earned premiums increased $0.7 million, or 4.4%, during the three month period ended March 31, 2022 over the comparable period in 2021. The increase in net earned premiums was primarily attributable to an increase in automobile physical damage coverage resulting from existing agencies 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 $1.3 million, or 10.8%, during the three month period ended March 31, 2022 over the comparable period in 2021. As a percentage of earned premiums, insurance benefits and losses incurred were 60.4% in the three month period ended March 31, 2022, compared to 70.7% in the three month period ended March 31, 2021. The decrease in the loss ratio during the three month period ended March 31, 2022 was primarily due to a decrease in the frequency and severity of claims in the automobile physical damage line of business, as well as in the inland marine segment of the other line of business.

Commissions and underwriting expenses increased $1.7 million, or 38.7%, during the three month period ended March 31, 2022, over the comparable period in 2021. As a percentage of earned premiums, underwriting expenses were 34.3% in the three month period ended March 31, 2022, compared to 25.8% in the three month period ended March 31, 2021. The increase in the expense ratio during the three month period ended March 31, 2022 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. 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. During the three month period ended March 31, 2022, variable commissions at American Southern increased by $1.1 million from the comparable period in 2021 due to more favorable loss experience from accounts subject to variable commissions.

Bankers Fidelity

The following summarizes Bankers Fidelity's earned premiums, losses, expenses and underwriting ratios for the three month period ended March 31, 2022 and the comparable period in 2021:

	Three Months Ended March 31,	
	2022	2021
	(Dollars in thousands)	
Medicare supplement	$ 37,971	$ 40,992
Other health products	2,973	2,387
Life insurance	4,517	2,887
Gross earned premiums	45,461	46,266
Ceded premiums	(15,723)	(16,791)
Net earned premiums	29,738	29,475
Insurance benefits and losses incurred	20,691	21,523
Commissions and underwriting expenses	8,746	9,885
Total expenses	29,437	31,408
Underwriting income (loss)	$ 301	$ (1,933)
Loss ratio	69.6%	73.0%
Expense ratio	29.4	33.5
Combined ratio	99.0%	106.5%

Net earned premium revenue at Bankers Fidelity increased $0.3 million, or 0.9%, during the three month period ended March 31, 2022, from the comparable period in 2021. Gross earned premiums from the Medicare supplement line of business decreased $3.0 million, or 7.4%, during the three month period ended March 31, 2022, due primarily to non-renewals exceeding the level of new business writings. Other health product premiums increased $0.6 million, or 24.5%, during the three month period ended March 31, 2022, over the comparable period in 2021, 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 $1.6 million, or 56.5%, during the three month period ended March 31, 2022 over the comparable period in 2021 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 $1.1 million, or 6.4%, during the three month period ended March 31, 2022, from the comparable period in 2021. The decrease in ceded premiums for the three month period ended March 31, 2022 was due to a decrease in Medicare supplement premiums subject to reinsurance.

Insurance benefits and losses incurred decreased $0.8 million, or 3.9%, during the three month period ended March 31, 2022, from the comparable period in 2021. As a percentage of earned premiums, insurance benefits and losses incurred were 69.6% in the three month period ended March 31, 2022, compared to 73.0% in the three month period ended March 31, 2021. The decrease in the loss ratio for the three month period ended March 31, 2022 was primarily due to a decrease in the number of incurred claims within the Medicare supplement line of business.

Commissions and underwriting expenses decreased $1.1 million, or 11.5%, during the three month period ended March 31, 2022, over the comparable period in 2021. As a percentage of earned premiums, underwriting expenses were 29.4% in the three month period ended March 31, 2022, compared to 33.5% in the three month period ended March 31, 2021. The decrease in the expense ratio for the three month period ended March 31, 2022 was primarily due to the level of additions to deferred acquisition costs (“DAC”) exceeding the amortization of DAC.

Net Investment Income and Realized Gains

Investment income increased $0.2 million, or 10.7%, during the three month period ended March 31, 2022, from the comparable period in 2021. The increase in investment income was attributable to an increase in the equity in earnings from investments in the Company’s limited partnerships and limited liability companies of $0.1 million.

The Company had net realized investment losses of $0.01 million during the three month period ended March 31, 2022, compared to net realized investment gains of $0.1 million during the three month period ended March 31, 2021. The net realized investment losses during the three month period ended March 31, 2022 resulted primarily from the redemption of the Company’s investment in a fixed maturity. The net realized investment gains during the three month period ended March 31, 2021 resulted primarily from the disposition of several of the Company’s investments in fixed maturities. Management continually evaluates the Company’s investment portfolio and makes adjustments for impairments and/or divests investments as may be determined to be appropriate.

Unrealized Gains on Equity Securities

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 $2.2 million during the three month period ended March 31, 2022 and unrealized gains on equity securities of $0.7 million during the three month period ended March 31, 2021. 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 slightly during the three month period ended March 31, 2022, from the comparable period in 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”) 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.

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 March 31, 2022, the Parent had approximately $3.5 million of unrestricted cash and investments.

The Parent's insurance subsidiaries reported statutory net income of $1.3 million for the three month period ended March 31, 2022, compared to statutory net income of $2.1 million for the three month period ended March 31, 2021. Statutory results are impacted by the recognition of all costs of acquiring business. In periods in which the Company's first year premiums increase, statutory results are generally lower than results determined under GAAP. Statutory results for the Company's property and casualty operations may differ from the Company's results of operations under GAAP due to the deferral of acquisition costs for financial reporting purposes. The Company's life and health operations' statutory results may differ from GAAP results primarily due to the deferral of acquisition costs for financial reporting purposes, as well as the use of different reserving methods.

Over 90% of the invested assets of the Parent's insurance subsidiaries are invested in marketable securities that can be converted into cash, if required; however, the use of such assets by the Company is limited by state insurance regulations. 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 March 31, 2022, American Southern had $53.4 million of statutory capital and surplus and Bankers Fidelity had $38.5 million of statutory capital and surplus. In 2022, dividend payments by the Parent's insurance subsidiaries in excess of $5.6 million would require prior approval. Through March 31, 2022, the Parent received dividends of $1.5 million from its subsidiaries.

The Parent provides certain administrative and other services to each of its insurance subsidiaries. The amounts charged to and paid by the subsidiaries include reimbursements for various shared services and other expenses incurred directly on behalf of the subsidiaries by the Parent. In addition, there is in place a formal tax-sharing agreement between the Parent and its insurance subsidiaries. As a result of the Parent's tax loss, it is anticipated that the tax-sharing agreement will continue to provide the Parent with additional funds from profitable subsidiaries to assist in meeting its cash flow obligations.

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 March 31, 2022, the effective interest rate was 4.57%. 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. As of March 31, 2022, 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 March 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 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. At March 31, 2022, the Company had accrued but unpaid dividends on the Series D Preferred Stock totaling $0.1 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 $8.1 million, as of March 31, 2022. Additional FHLB stock purchases may be required based upon the amount of funds borrowed from the FHLB. As of March 31, 2022, BFLIC has pledged bonds having an amortized cost of $4.8 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 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 March 31, 2022, the Company does not have any outstanding borrowings under the Credit Agreement.

Cash and cash equivalents decreased from $24.8 million at December 31, 2021 to $15.6 million at March 31, 2022. The decrease in cash and cash equivalents during the three month period ended March 31, 2022 was primarily attributable to net cash used in operating activities of $8.0 million. Also contributing to the decrease in cash and cash equivalents was net cash used in investing activities of $1.1 million as a result of investment purchases exceeding investment sales and maturity of securities.

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, borrowings under its credit facilities or 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.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 (the “Exchange Act”) reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applies its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management’s control objectives. The Company’s management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures can prevent all possible errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There are inherent limitations in all control systems, including the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the intentional acts of one or more persons. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and, while our disclosure controls and procedures are designed to be effective under circumstances where they should reasonably be expected to operate effectively, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in any control system, misstatements due to possible errors or fraud may occur and may not be detected. 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 our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

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

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 March 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
January 1 – January 31, 2022	—	$ —	—	325,129
February 1 – February 28, 2022	—	—	—	325,129
March 1 – March 31, 2022	—	—	—	325,129
Total	—	$ —	—	

Item 6. Exhibits

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 Document.
101. CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

SIGNATURES

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

ATLANTIC AMERICAN CORPORATION
(Registrant)

Date: May 11, 2022

By: /s/ J. Ross Franklin
J. Ross Franklin
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 31.1

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 report on Form 10-Q 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: May 11, 2022

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

EXHIBIT 31.2

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 report on Form 10-Q 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: May 11, 2022

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

EXHIBIT 32.1

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

Pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Quarterly Report on Form 10-Q of Atlantic American Corporation (the “Company”) for the quarterly period ended March 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: May 11, 2022	/s/ Hilton H. Howell, Jr. Hilton H. Howell, Jr. President and Chief Executive Officer
Date: May 11, 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, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version 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.