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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2022

OR

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

For the transition period from __________ to __________

Commission File Number 001-33251

UNIVERSAL INSURANCE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**65-0231984**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1110 W. Commercial Blvd., Fort Lauderdale, Florida 33309
(Address of principal executive offices) (Zip Code)

(954) 958-1200
(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, $0.01 Par Value	UVE	New York Stock Exchange

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 30,945,861 shares of common stock, par value $0.01 per share, outstanding on April 26, 2022.

UNIVERSAL INSURANCE HOLDINGS, INC.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Universal Insurance Holdings, Inc.
Fort Lauderdale, Florida

RESULTS OF REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

We have reviewed the accompanying condensed consolidated balance sheet of Universal Insurance Holdings, Inc. and its wholly-owned subsidiaries (the "Company") as of March 31, 2022 and the related condensed consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the three-month periods ended March 31, 2022 and 2021. Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheet of Universal Insurance Holdings, Inc. as of December 31, 2021 and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated February 28, 2022. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2021, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

BASIS FOR REVIEW RESULTS

These interim financial statements are the responsibility of the Company's management. We conducted our review in accordance with the standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

/s/ Plante & Moran, PLLC

East Lansing, Michigan
May 2, 2022

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)
(in thousands, except per share data)

	As of	
	March 31, 2022	December 31, 2021
ASSETS		
Available-for-sale debt securities, at fair value, net of allowance for credit loss of $572 and $489 (amortized cost: $1,092,438 and $1,061,192)	$ 1,014,677	$ 1,040,455
Equity securities, at fair value (cost: $72,339 and $51,151)	65,126	47,334
Investment real estate, net	5,845	5,891
Total invested assets	1,085,648	1,093,680
Cash and cash equivalents	165,398	250,508
Restricted cash and cash equivalents	2,635	2,635
Prepaid reinsurance premiums	109,401	240,993
Reinsurance recoverable	104,660	185,589
Premiums receivable, net	61,670	64,923
Property and equipment, net	54,170	53,682
Deferred policy acquisition costs	103,622	108,822
Income taxes recoverable	2,262	16,947
Deferred income tax asset, net	40,072	16,331
Other assets	19,417	22,031
Total assets	$ 1,748,955	$ 2,056,141
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Unpaid losses and loss adjustment expenses	$ 244,482	$ 346,216
Unearned premiums	839,647	857,769
Advance premium	85,120	53,694
Book overdraft	—	26,759
Reinsurance payable, net	12,723	188,662
Commission payable	23,484	22,315
Other liabilities and accrued expenses	43,774	27,348
Long-term debt, net	103,384	103,676
Total liabilities	1,352,614	1,626,439
Commitments and Contingencies (Note 12)		
STOCKHOLDERS' EQUITY:		
Cumulative convertible preferred stock, $0.01 par value	—	—
Authorized shares - 1,000		
Issued shares - 10 and 10		
Outstanding shares - 10 and 10		
Minimum liquidation preference, $9.99 and $9.99 per share		
Common stock, $0.01 par value	471	470
Authorized shares - 55,000		
Issued shares - 47,063 and 47,018		
Outstanding shares - 30,946 and 31,221		
Treasury shares, at cost - 16,117 and 15,797	(230,994)	(227,115)
Additional paid-in capital	109,099	108,202
Accumulated other comprehensive income (loss), net of taxes	(58,478)	(15,568)
Retained earnings	576,243	563,713
Total stockholders' equity	396,341	429,702
Total liabilities and stockholders' equity	$ 1,748,955	$ 2,056,141

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)
(in thousands, except per share data)

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
PREMIUMS EARNED AND OTHER REVENUES		
Direct premiums written	$ 396,481	$ 365,314
Change in unearned premium	18,122	10,292
Direct premium earned	414,603	375,606
Ceded premium earned	(145,539)	(132,301)
Premiums earned, net	269,064	243,305
Net investment income	4,042	2,986
Net realized gains (losses) on investments	58	542
Net change in unrealized gains (losses) of equity securities	(3,396)	(494)
Commission revenue	11,161	9,126
Policy fees	4,779	5,387
Other revenue	1,774	1,905
Total premiums earned and other revenues	287,482	262,757
OPERATING COSTS AND EXPENSES		
Losses and loss adjustment expenses	185,106	143,963
General and administrative expenses	78,297	82,423
Total operating costs and expenses	263,403	226,386
Interest and amortization of debt issuance costs	1,608	20
INCOME (LOSS) BEFORE INCOME TAXES	22,471	36,351
Income tax expense (benefit)	4,934	9,943
NET INCOME (LOSS)	$ 17,537	$ 26,408
Basic earnings (loss) per common share	$ 0.56	$ 0.85
Weighted average common shares outstanding - Basic	31,147	31,208
Diluted earnings (loss) per common share	$ 0.56	$ 0.84
Weighted average common shares outstanding - Diluted	31,227	31,277
Cash dividend declared per common share	$ 0.16	$ 0.16

—

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Net income (loss)	$ 17,537	$ 26,408
Other comprehensive income (loss), net of taxes	(42,910)	(16,910)
Comprehensive income (loss)	$ (25,373)	$ 9,498

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021 (unaudited)
(in thousands, except per share data)

	Treasury Shares	Common Shares Issued	Preferred Shares Issued	Common Stock Amount	Preferred Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Shares, at Cost	Total Stockholders' Equity
Balance, December 31, 2021	(15,797)	47,018	10	$ 470	$ —	$ 108,202	$ 563,713	$ (15,568)	$ (227,115)	$ 429,702
Vesting of performance share units	(9) (1)	33	—	1	—	(1)	—	—	(104)	(104)
Vesting of restricted stock units	(6) (1)	27	—	—	—	—	—	—	(105)	(105)
Retirement of treasury shares	15 (1)	(15)	—	—	—	(209)	—	—	209	—
Purchases of treasury stock	(320)	—	—	—	—	—	—	—	(3,879)	(3,879)
Share-based compensation	—	—	—	—	—	1,107	—	—	—	1,107
Net income	—	—	—	—	—	—	17,537	—	—	17,537
Other comprehensive loss, net of taxes	—	—	—	—	—	—	—	(42,910)	—	(42,910)
Declaration of dividends ($0.16 per common share and $0.25 per preferred share)	—	—	—	—	—	—	(5,007)	—	—	(5,007)
Balance, March 31, 2022	(16,117)	47,063	10	$ 471	$ —	$ 109,099	$ 576,243	$ (58,478)	$ (230,994)	$ 396,341

(1) All shares acquired represent shares tendered to cover the strike price for options and tax withholdings on the intrinsic value of options exercised, restricted stock vested, performance share units vested, or restricted stock units vested. These shares have been cancelled by the Company.

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)
(in thousands, except per share data)

	Treasury Shares	Common Shares Issued	Preferred Shares Issued	Common Stock Amount	Preferred Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Shares, at Cost	Total Stockholders' Equity
Balance, December 31, 2020	(15,680)	46,817	10	$ 468	$ —	$ 103,445	$ 567,512	$ 3,343	$ (225,506)	$ 449,262
Vesting of performance share units	(16) [1]	62	—	—	—	—	—	—	(241)	(241)
Vesting of restricted stock units	(17) [1]	65	—	1	—	(1)	—	—	(254)	(254)
Retirement of treasury shares	33 [1]	(33)	—	—	—	(495)	—	—	495	—
Purchases of treasury stock	(15)	—	—	—	—	—	—	—	(245)	(245)
Share-based compensation	—	—	—	—	—	1,675	—	—	—	1,675
Net income	—	—	—	—	—	—	26,408	—	—	26,408
Other comprehensive loss, net of taxes	—	—	—	—	—	—	—	(16,910)	—	(16,910)
Declaration of dividends ($0.16 per common share and $0.25 per preferred share)	—	—	—	—	—	—	(5,030)	—	—	(5,030)
Balance, March 31, 2021	(15,695)	46,911	10	$ 469	$ —	$ 104,624	$ 588,890	$ (13,567)	$ (225,751)	$ 454,665

(1) All shares acquired represent shares tendered to cover the strike price for options and tax withholdings on the intrinsic value of options exercised, restricted stock vested, performance share units vested, or restricted stock units vested. These shares have been cancelled by the Company.

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(in thousands)

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Cash flows from operating activities:		
Net cash provided by operating activities	$ (27,081)	$ 61,265
Cash flows from investing activities:		
Proceeds from sale of property and equipment	1	16
Purchases of property and equipment	(2,185)	(1,211)
Purchases of equity securities	(29,333)	(8,175)
Purchases of available-for-sale debt securities	(57,163)	(178,828)
Proceeds from sales of equity securities	14,932	1,576
Proceeds from sales of available-for-sale debt securities	12,540	27,455
Proceeds from sales of investment real estate	—	2,591
Maturities of available-for-sale debt securities	12,766	25,178
Net cash provided by (used in) investing activities	(48,442)	(131,398)
Cash flows from financing activities:		
Debt issuance costs paid	(100)	—
Preferred stock dividend	(3)	(3)
Common stock dividend	(5,029)	(5,083)
Purchase of treasury stock	(3,879)	(245)
Payments related to tax withholding for share-based compensation	(209)	(495)
Repayment of debt	(367)	(368)
Net cash provided by (used in) financing activities	(9,587)	(6,194)
Cash and cash equivalents and restricted cash and cash equivalents:		
Net increase (decrease) during the period	(85,110)	(76,327)
Balance, beginning of period	253,143	179,871
Balance, end of period	$ 168,033	$ 103,544

The following table summarizes our cash and cash equivalents and restricted cash and cash equivalents within the Condensed Consolidated Balance Sheets (in thousands):

	March 31, 2022	December 31, 2021
Cash and cash equivalents	$ 165,398	$ 250,508
Restricted cash and cash equivalents (1)	2,635	2,635
Total cash and cash equivalents and restricted cash and cash equivalents	$ 168,033	$ 253,143

(1) See "—Note 5 (Insurance Operations)" for a discussion of the nature of the restrictions for restricted cash and cash equivalents.

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Universal Insurance Holdings, Inc. ("UVE", and together with its wholly-owned subsidiaries, "the Company") is a Delaware corporation incorporated in 1990. The Company is a vertically integrated insurance holding company performing all aspects of insurance underwriting, distribution and claims. Through its wholly-owned insurance company subsidiaries, Universal Property & Casualty Insurance Company ("UPCIC") and American Platinum Property and Casualty Insurance Company ("APPCIC", and together with UPCIC, the "Insurance Entities"), the Company is principally engaged in the property and casualty insurance business offered primarily through its network of independent agents. Risk from catastrophic losses is managed through the use of reinsurance agreements. The Company's primary product is residential homeowners' insurance offered in 19 states as of March 31, 2022, including Florida, which comprises the majority of the Company's policies in force. See "—Note 5 (Insurance Operations)" for more information regarding the Company's insurance operations.

The Company generates revenues primarily from the collection of premiums and investment returns on funds invested on cash flows in excess of those retained and used for claims-paying obligations and insurance operations. Other significant sources of revenue include brokerage commissions collected from reinsurers on certain reinsurance programs placed on behalf of the Insurance Entities, policy fees collected from policyholders by the Company's wholly-owned managing general agent subsidiary and payment plan fees charged to policyholders who choose to pay their premiums in installments. The Company's wholly-owned adjusting company receives claims-handling fees from the Insurance Entities. The Insurance Entities are reimbursed for these fees on claims that are subject to recovery under the Insurance Entities' respective reinsurance programs. These fees, after expenses, are recorded in the Condensed Consolidated Financial Statements as an adjustment to losses and loss adjustment expense ("LAE").

Basis of Presentation

The Company has prepared the accompanying unaudited Condensed Consolidated Financial Statements ("Financial Statements") in accordance with the rules and regulations of the United States Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, the Financial Statements do not include all of the information and footnotes required by United States Generally Accepted Accounting Principles ("U.S. GAAP") for annual financial statements. Therefore, the Financial Statements should be read in conjunction with the audited Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, filed with the SEC on February 28, 2022. The Condensed Consolidated Balance Sheet at December 31, 2021 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included in the Financial Statements. The results for interim periods do not necessarily indicate the results that may be expected for any other interim period or for the full year.

To conform to the current period presentation, certain amounts in the prior periods' condensed consolidated financial statements and notes have been reclassified. Such reclassifications were of an immaterial amount and had no effect on net income or stockholders' equity.

The Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, as well as variable interest entities ("VIE") in which the Company is determined to be the primary beneficiary. All material intercompany balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company's primary use of estimates is in the recognition of liabilities for unpaid losses, loss adjustment expenses, subrogation recoveries and reinsurance recoveries. Actual results could differ from those estimates.

2. Significant Accounting Policies

The Company reported Significant Accounting Policies in its Annual Report on Form 10-K for the year ended December 31, 2021.

3. Investments

Available-for-Sale Securities

The following table provides the amortized cost and fair value of available-for-sale debt securities as of the dates presented (in thousands):

	March 31, 2022				
	Amortized Cost	Allowance for Expected Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt Securities:					
U.S. government obligations and agencies	$ 22,380	$ —	$ —	$ (719)	$ 21,661
Corporate bonds	722,680	(456)	111	(52,427)	669,908
Mortgage-backed and asset-backed securities	323,684	—	38	(22,200)	301,522
Municipal bonds	14,924	—	—	(1,405)	13,519
Redeemable preferred stock	8,770	(116)	—	(587)	8,067
Total	$ 1,092,438	$ (572)	$ 149	$ (77,338)	$ 1,014,677

	December 31, 2021				
	Amortized Cost	Allowance for Expected Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt Securities:					
U.S. government obligations and agencies	$ 27,076	$ —	$ 64	$ (334)	$ 26,806
Corporate bonds	687,058	(371)	843	(13,725)	673,805
Mortgage-backed and asset-backed securities	322,844	—	194	(6,920)	316,118
Municipal bonds	14,925	(1)	—	(350)	14,574
Redeemable preferred stock	9,289	(117)	28	(48)	9,152
Total	$ 1,061,192	$ (489)	$ 1,129	$ (21,377)	$ 1,040,455

The following table provides the credit quality of available-for-sale debt securities with contractual maturities as of the dates presented (dollars in thousands):

	March 31, 2022		December 31, 2021	
Average Credit Ratings	Fair Value	% of Total Fair Value	Fair Value	% of Total Fair Value
AAA	$ 309,960	30.5 %	$ 321,975	31.0 %
AA	139,554	13.8 %	139,186	13.4 %
A	330,751	32.6 %	339,500	32.6 %
BBB	227,901	22.5 %	234,358	22.5 %
No Rating Available	6,511	0.6 %	5,436	0.5 %
Total	$ 1,014,677	100.0 %	$ 1,040,455	100.0 %

The table above includes credit quality ratings by Standard and Poor’s Rating Services, Inc. (“S&P”), Moody’s Investors Service, Inc. and Fitch Ratings, Inc. The Company has presented the highest rating of the three rating agencies for each investment position.

The following table summarizes the amortized cost and fair value of mortgage-backed and asset-backed securities as of the dates presented (in thousands):

	March 31, 2022		December 31, 2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mortgage-backed securities:				
Agency	$ 146,674	$ 134,111	$ 147,992	$ 143,819
Non-agency	60,719	55,096	59,906	58,263
Asset-backed securities:				
Auto loan receivables	68,485	66,410	67,352	66,877
Credit card receivables	4,711	4,668	4,741	4,719
Other receivables	43,095	41,237	42,853	42,440
Total	$ 323,684	$ 301,522	$ 322,844	$ 316,118

The following tables summarize available-for-sale debt securities, aggregated by major security type and length of time that individual securities have been in a continuous unrealized loss position, for which no allowance for expected credit losses has been recorded as of the dates presented (in thousands):

	March 31, 2022					
	Less Than 12 Months			12 Months or Longer		
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses
Debt Securities:						
U.S. government obligations and agencies	2	$ 11,549	$ (63)	5	$ 10,112	$ (656)
Corporate bonds	188	253,022	(16,821)	95	118,710	(12,044)
Mortgage-backed and asset-backed securities	118	156,773	(7,653)	70	138,894	(14,547)
Municipal bonds	9	9,988	(932)	1	3,531	(473)
Redeemable preferred stock	4	1,270	(122)	—	—	—
Total	321	$ 432,602	$ (25,591)	171	$ 271,247	$ (27,720)

	December 31, 2021					
	Less Than 12 Months			12 Months or Longer		
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses
Debt Securities:						
U.S. government obligations and agencies	4	$ 18,913	$ (111)	4	$ 5,016	$ (223)
Corporate bonds	249	378,595	(7,468)	18	17,356	(679)
Mortgage-backed and asset-backed securities	145	274,883	(5,969)	11	23,273	(951)
Municipal bonds	5	9,811	(269)	—	—	—
Redeemable preferred stock	1	200	(1)	—	—	—
Total	404	$ 682,402	$ (13,818)	33	$ 45,645	$ (1,853)

Unrealized losses on available-for-sale debt securities in the above table as of March 31, 2022 have not been recognized into income as credit losses because the issuers are of high credit quality (investment grade securities), management does not intend to sell and it is likely management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. There were no material factors impacting any one category or specific security requiring an accrual for credit loss. The issuers continue to make principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

The following table presents a reconciliation of the beginning and ending balances for expected credit losses on available-for-sale debt securities (in thousands):

	Corporate Bonds	Municipal Bonds	Redeemable Preferred Stock	Total
Balance, December 31, 2020	$ 148	$ —	$ 38	$ 186
Provision for (or reversal of) credit loss expense	223	1	79	303
Balance, December 31, 2021	371	1	117	489
Provision for (or reversal of) credit loss expense	85	(1)	(1)	83
Balance, March 31, 2022	$ 456	$ —	$ 116	$ 572

For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available-for-sale debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by rating agencies, market sentiment and trends and adverse conditions specifically related to the security, among other quantitative and qualitative factors utilized for establishing an estimate for credit losses. If the assessment indicates that a credit loss exists, the present values of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as a provision for (or reversal of) credit loss expense and are reported in general and administrative expenses in the Condensed Consolidated Statements of Income. Losses are charged against the allowance when management believes an available-for-sale debt security is confirmed as uncollected or when either of the criteria regarding intent or requirement to sell is met.

The following table presents the amortized cost and fair value of investments with maturities as of the date presented (in thousands):

	March 31, 2022	
	Amortized Cost	Fair Value
Due in one year or less	$ 53,698	$ 53,176
Due after one year through five years	504,075	475,424
Due after five years through ten years	501,063	455,448
Due after ten years	31,710	28,916
Perpetual maturity securities	1,892	1,713
Total	$ 1,092,438	$ 1,014,677

All securities, except those with perpetual maturities, were categorized in the table above utilizing years to effective maturity. Effective maturity takes into consideration all forms of potential prepayment, such as call features or prepayment schedules, that shorten the lifespan of contractual maturity dates.

The following table provides certain information related to available-for-sale debt securities, equity securities and investment in real estate during the periods presented (in thousands):

	Three Months Ended March 31, 2022	2021
Proceeds from sales and maturities (fair value):		
Available-for-sale debt securities	$ 25,306	$ 52,633
Equity securities	$ 14,932	$ 1,576
Gross realized gains on sale of securities:		
Available-for-sale debt securities	$ 6	$ 122
Equity securities	$ 324	$ 343
Gross realized losses on sale of securities:		
Available-for-sale debt securities	$ (270)	$ (324)
Equity securities	$ (2)	$ —
Realized gains on sales of investment real estate (1)	$ —	$ 401

(1) During the first quarter of 2021, the Company completed the sale of a non-income producing investment real estate property. The Company received net cash proceeds of approximately $2.6 million and recognized a pre-tax gain of approximately $0.4 million that is included in net realized gains (losses) on investments in the Condensed Consolidated Statements of Income for the three months ended March 31, 2021.

The following table presents the components of net investment income, comprised primarily of interest and dividends, for the periods presented (in thousands):

	Three Months Ended March 31, 2022	2021
Available-for-sale debt securities	$ 4,067	$ 2,829
Equity securities	535	591
Cash and cash equivalents (1)	22	11
Other (2)	128	268
Total investment income	4,752	3,699
Less: Investment expenses (3)	(710)	(713)
Net investment income	$ 4,042	$ 2,986

(1) Includes interest earned on restricted cash and cash equivalents.

(2) Includes investment income earned on real estate investments.

(3) Includes custodial fees, investment accounting and advisory fees, and expenses associated with real estate investments.

Equity Securities

The following table provides the unrealized gains and losses recognized for the periods presented on equity securities still held at the end of the reported period (in thousands):

	Three Months Ended March 31, 2022	2021
Unrealized gains (losses) recognized during the reported period on equity securities still held at the end of the reported period	$ (3,353)	$ (519)

Investment Real Estate

Investment real estate consisted of the following as of the dates presented (in thousands):

	March 31, 2022	December 31, 2021
Income Producing:		
Investment real estate	$ 7,091	$ 7,091
Less: Accumulated depreciation	(1,246)	(1,200)
Investment real estate, net	$ 5,845	$ 5,891

The following table provides the depreciation expense related to investment real estate for the periods presented (in thousands):

	Three Months Ended March 31,	
	2022	2021
Depreciation expense on investment real estate	$ 46	$ 46

4. Reinsurance

The Company seeks to reduce its risk of loss by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers, generally as of the beginning of the hurricane season on June 1st of each year. The Company's current reinsurance programs consist principally of catastrophe excess of loss reinsurance, subject to the terms and conditions of the applicable agreements. Notwithstanding the purchase of such reinsurance, the Company is responsible for certain retained loss amounts before reinsurance attaches and for insured losses related to catastrophes and other events that exceed coverage provided by the reinsurance programs. The Company remains responsible for the settlement of insured losses irrespective of whether any of the reinsurers fail to make payments otherwise due.

To reduce credit risk for amounts due from reinsurers, the Insurance Entities seek to do business with financially sound reinsurance companies and regularly evaluate the financial strength of all reinsurers used.

The following table presents ratings from rating agencies and the unsecured amounts due from the reinsurers whose aggregate balance exceeded 3% of the Company's stockholders' equity as of the dates presented (in thousands):

	Ratings as of March 31, 2022			Due from as of	
Reinsurer	AM Best Company	Standard and Poor's Rating Services, Inc.	Moody's Investors Service, Inc.	March 31, 2022	December 31, 2021
Florida Hurricane Catastrophe Fund (1)	n/a	n/a	n/a	$ 49,707	$ 136,298
Allianz Risk Transfer	A+	AA-	Aa3	45,579	—
Allianz Risk Transfer (Bermuda) Ltd.	A+	AA-	Aa3	25,724	44,618
Renaissance Reinsurance Ltd.	A+	A+	A1	12,075	20,051
Total (2)				$ 133,085	$ 200,967

(1) No rating is available because the fund is not rated.

(2) Amounts represent prepaid reinsurance premiums and net recoverables for paid and unpaid losses, including incurred but not reported reserves, and loss adjustment expenses.

The Company's reinsurance arrangements had the following effect on certain items in the Condensed Consolidated Statements of Income for the periods presented (in thousands):

	Three Months Ended March 31,					
	2022			2021		
	Premiums Written	Premiums Earned	Losses and Loss Adjustment Expenses	Premiums Written	Premiums Earned	Losses and Loss Adjustment Expenses
Direct	$ 396,481	$ 414,603	$ 195,155	$ 365,314	$ 375,606	$ 237,298
Ceded	(13,946)	(145,539)	(10,049)	(16,800)	(132,301)	(93,335)
Net	$ 382,535	$ 269,064	$ 185,106	$ 348,514	$ 243,305	$ 143,963

The following prepaid reinsurance premiums and reinsurance recoverable are reflected in the Condensed Consolidated Balance Sheets as of the dates presented (in thousands):

	March 31, 2022	December 31, 2021
Prepaid reinsurance premiums	$ 109,401	$ 240,993
Reinsurance recoverable on paid losses and LAE	$ 39,257	$ 69,729
Reinsurance recoverable on unpaid losses and LAE	65,403	115,860
Reinsurance recoverable	$ 104,660	$ 185,589

5. Insurance Operations

Deferred Policy Acquisition Costs

The Company defers certain costs in connection with written premium, called Deferred Policy Acquisition Costs ("DPAC"). DPAC is amortized over the effective period of the related insurance policies.

The following table presents the beginning and ending balances and the changes in DPAC for the periods presented (in thousands):

	Three Months Ended March 31,	
	2022	2021
DPAC, beginning of period	$ 108,822	$ 110,614
Capitalized Costs	49,199	54,722
Amortization of DPAC	(54,399)	(54,143)
DPAC, end of period	$ 103,622	$ 111,193

Regulatory Requirements and Restrictions

The Insurance Entities are subject to regulations and standards of the Florida Office of Insurance Regulation ("FLOIR"). The Insurance Entities are also subject to regulations and standards of regulatory authorities in other states where they are licensed, although as Florida-domiciled insurers, their principal regulatory authority is the FLOIR. These standards and regulations include a requirement that the Insurance Entities maintain specified levels of statutory capital and restrict the timing and amount of dividends and other distributions that may be paid by the Insurance Entities to the parent company. Except in the case of extraordinary dividends, these standards generally permit dividends to be paid from statutory unassigned funds of the regulated subsidiary and are limited based on the regulated subsidiary's level of statutory net income and statutory capital and surplus. The maximum dividend that may be paid by the Insurance Entities to their immediate parent company, Protection Solutions, Inc. ("PSI", formerly known as Universal Insurance Holding Company of Florida), without prior regulatory approval is limited by the provisions of the Florida Insurance Code. These dividends are referred to as "ordinary dividends." However, if the dividend, together with other dividends paid within the preceding twelve months, exceeds this statutory limit or is paid from sources other than earned surplus, the entire dividend is generally considered an "extraordinary dividend" and must receive prior regulatory approval.

In accordance with Florida Insurance Code, and based on the calculations performed by the Company as of December 31, 2021, UPCIC currently is not able to pay any ordinary dividends during 2022. APPCIC, based on its accumulated earnings history as of December 31, 2021, is unable to pay any ordinary dividends during 2022. For the three months ended March 31, 2022 and 2021, no dividends were paid from the Insurance Entities to PSI.

The Florida Insurance Code requires a residential property insurance company to maintain statutory surplus as to policyholders of at least $15.0 million or ten percent of the insurer's total liabilities, whichever is greater. The following table presents the amount of capital and surplus calculated in accordance with statutory accounting principles, which differs from U.S. GAAP, and an amount representing ten percent of total liabilities for each of the Insurance Entities as of the dates presented (in thousands):

	March 31, 2022	December 31, 2021
Statutory capital and surplus		
UPCIC (1) (2)	$ 389,248	$ 378,750
APPCIC (3)	$ 18,539	$ 16,104
Ten percent of total liabilities		
UPCIC	$ 114,748	$ 122,292
APPCIC	$ 1,191	$ 649

(1) At March 31, 2022, statutory capital and surplus for UPCIC included a $20 million Subordinated Surplus Debenture ("Surplus Debenture") funded in March 2022 by UVE through PSI, the Insurance Entities' parent company, which is a component of surplus under statutory accounting principles and a liability under U.S. GAAP. The carrying amount of the Surplus Debenture included in the statutory capital and surplus of UPCIC is $130 million as of March 31, 2022.

(2) At December 31, 2021, statutory capital and surplus for UPCIC included a $20 million Surplus Debenture funded in October 2021 by UVE through PSI, the Insurance Entities' parent company, which is a component of surplus under statutory accounting principles and a liability under U.S. GAAP. In addition, capital and surplus included a contribution of $90 million Surplus Debenture funded in February 2022 which was not recognized on a U.S. GAAP basis as of December 31, 2021. The carrying amount of the Surplus Debenture included in the statutory capital and surplus of UPCIC is $110 million as of December 31, 2021.

(3) At March 31, 2022, statutory capital and surplus for APPCIC included a $3 million Surplus Debenture funded in March 2022 by UVE through PSI, the Insurance Entities' parent company, which is a component of surplus under statutory accounting principles and a liability under U.S. GAAP. The carrying amount of the Surplus Debenture included in the statutory capital and surplus of APPCIC is $3 million as of March 31, 2022.

As of the dates in the table above, the Insurance Entities each exceeded the minimum statutory capitalization requirement. The Insurance Entities also met the capitalization requirements of the other states in which they are licensed as of March 31, 2022. The Insurance Entities each are also required to adhere to prescribed premium-to-capital surplus ratios and each have met those requirements at such dates.

Through PSI, UVE recorded contributions for the periods presented (in thousands):

	Three Months Ended March 31,	
	2022	2021
Capital contributions - UPCIC	$ —	$ 77,000

The following table summarizes combined net income (loss) for the Insurance Entities determined in accordance with statutory accounting practices for the periods presented (in thousands):

	Three Months Ended March 31,	
	2022	2021
Combined net income (loss)	$ (11,933)	$ (7,376)

The Insurance Entities are required by various state laws and regulations to maintain certain assets in depository accounts. The following table represents assets held by insurance regulators as of the dates presented (in thousands):

	March 31, 2022	December 31, 2021
Restricted cash and cash equivalents	$ 2,635	$ 2,635
Investments	$ 3,317	$ 3,441

6. Liability for Unpaid Losses and Loss Adjustment Expenses

Set forth in the following table is the change in liability for unpaid losses and LAE for the periods presented (in thousands):

	Three Months Ended March 31,	
	2022	2021
Balance at beginning of period	$ 346,216	$ 322,465
Less: Reinsurance recoverable	(115,860)	(119,522)
Net balance at beginning of period	230,356	202,943
Incurred related to:		
Current year	184,451	145,200
Prior years	655	(1,237)
Total incurred	185,106	143,963
Paid related to:		
Current year	71,727	54,481
Prior years	164,656	95,316
Total paid	236,383	149,797
Net balance at end of period	179,079	197,109
Plus: Reinsurance recoverable	65,403	118,671
Balance at end of period	$ 244,482	$ 315,780

During the three months ended March 31, 2022, there was adverse prior years' reserve development of $10.7 million gross, less $10.0 million ceded, resulting in $0.7 million net development. The direct and net prior years' reserve development for the quarter ended March 31, 2022 was principally due to a direct increase in the ultimate losses for Hurricanes Irma and Matthew of $10.7 million offset by ceded hurricane losses of $10.0 million resulting in net unfavorable development of $0.7 million.

During the three months ended March 31, 2021, there was adverse prior years' reserve development of $92.1 million gross, less $93.3 million ceded, resulting in $1.2 million net favorable development. The net favorable prior years' reserve development for the quarter ended March 31, 2021 was principally due to an increase in ceded reserves for Hurricane Sally as a result of recoveries on losses outside of Florida, which have a lower attachment point offset by a reduction in Hurricane Irma recoveries representing previously ceded losses not subject to recovery. As a result, net prior years' reserve development was favorable.

7. Long-term Debt

Consists of the following as of the dates presented (in thousands):

	March 31, 2022	December 31, 2021
Surplus note	$ 6,618	$ 6,985
5.625% Senior unsecured notes	100,000	100,000
Total principal amount	106,618	106,985
Less: unamortized debt issuance costs	(3,234)	(3,309)
Total long-term debt, net	$ 103,384	$ 103,676

Surplus Note

In 2006, UPCIC entered into a $25.0 million surplus note with the State Board of Administration of Florida (the "SBA") under Florida's Insurance Capital Build-Up Incentive Program. The surplus note has a twenty-year term and accrues interest, adjusted quarterly based on the 10-year Constant Maturity Treasury Index. Principal and interest are paid periodically pursuant to terms of the surplus note. UPCIC was in compliance with the terms of the surplus note as of March 31, 2022.

Senior Unsecured Notes

On November 23, 2021, the Company entered into Note Purchase Agreements with certain institutional accredited investors and qualified institutional buyers pursuant to which the Company issued and sold $100 million of 5.625% Senior Unsecured Notes due 2026 (the "Notes"). The Purchase Agreements contain certain customary representations, warranties and covenants made by the Company.

The Notes were offered and sold by the Company in a private placement transaction in reliance on exemptions from the registration requirements of the Securities Act of 1933, as amended. On November 23, 2021, in connection with the issuance and sale of the Notes, the Company also entered into Registration Rights Agreements (the "Registration Rights Agreements") with the purchasers of the Notes. Under the terms of the Registration Rights Agreements, the Company has agreed to take certain actions to provide for the exchange of the Notes for notes that are registered under the Securities Act and have substantially the same terms as the Notes (the "Exchange Offer"). Under certain circumstances, if the Company fails to meet its obligations under the Registration Rights Agreements, it would be required to pay additional interest to the holders of the Notes. The interest rate on the Notes will increase by 0.25% per annum immediately following such 120-day period in the case of such failure and will increase by an additional 0.25% per annum for each subsequent 90 day period that the Company fails to meet its obligations, up to a maximum of 0.50% per annum. The Registration Statement surrounding the Notes was deemed effective by the Securities and Exchange Commission on March 24, 2022, thus additional interest would not apply. See "Note 15 (Subsequent Events)" for additional information on the Exchange Offer.

The Notes are senior unsecured debt obligations that bear interest at the rate of 5.625% per annum, payable semi-annually in arrears on May 30th and November 30th of each year, beginning on May 30, 2022. The Notes are subject to adjustment from time to time in the event of a downgrade or subsequent upgrade of the rating assigned to the Notes. The Notes mature on November 26, 2026 at which time the entire $100.0 million of principal is due and payable. At any time on or after November 30, 2023, the Company may redeem all or part of the Notes at redemption prices (expressed as percentages of the principal amount) equal to (i) 102.81250% for the twelve-month period beginning on November 30, 2023; (ii) 101.40625% for the twelve-month period beginning on November 30, 2024 and (iii) 100.000% at any time thereafter, plus accrued and unpaid interest up to, but not including the redemption date.

On November 23, 2021, the Company entered into an indenture, relating to the issuance of the Notes (the "Indenture"), with UMB Bank National Association, as trustee. The Notes are not subject to any sinking fund and are not convertible into or exchangeable, other than pursuant to the Exchange Offer, for any other securities or assets of the Company or any of its subsidiaries. The Notes are not subject to redemption at the option of the holder. The indenture governing the Notes contains financial covenants, terms, events of default and related cure provisions that are customary in agreements used in connection with similar transactions. As of March 31, 2022, the Company was in compliance with all applicable covenants, including financial covenants.

The Notes are unsecured senior obligations of the Company, are not obligations of, and are not guaranteed by, any subsidiary of the Company. The Notes rank equally in right of payment to the Unsecured Revolving Loan described below.

Unsecured Revolving Loan

In August 2021, the Company entered into a credit agreement and related revolving loan ("Revolving Loan") with JPMorgan Chase Bank, N.A. ("JPMorgan"). The Revolving Loan makes available to the Company an unsecured revolving credit facility with an aggregate commitment not to exceed $35.0 million and carries an interest rate of prime rate plus a margin of 2%. The Company must pay an annual commitment of 0.50% of the unused portion of the commitment. Borrowings under the Revolving Loan mature 364 days after the date of the loan.

The Revolving Loan contains customary financial covenants. As of March 31, 2022, the Company was in compliance with all applicable covenants, including financial covenants. The Company has not drawn any amount under the Revolving Loan as of March 31, 2022.

Interest Expense

The following table provides interest expense related to long-term debt during the periods presented (in thousands):

	Three Months Ended March 31,	
	2022	2021
Interest Expense:		
Surplus note	$ 27	$ 20
5.625% Senior unsecured notes	1,406	—
Non-cash expense (1)	175	—
Total	$ 1,608	$ 20

(1) Represents amortization of debt issuance costs.

8. Stockholders' Equity

From time to time, the Company's Board of Directors may authorize share repurchase programs under which the Company may repurchase shares of the Company's common stock in the open market. The following table presents repurchases of the Company's common stock for the periods presented (in thousands, except total number of shares repurchased and per share data):

Date Authorized	Expiration Date	Dollar Amount Authorized	Total Number of Shares Repurchased During the Three Months Ended March 31, 2022	2021	Aggregate Purchase Price	Average Price Per Share Repurchased	Plan Completed
November 3, 2020	November 3, 2022	$ 20,000	320,528	—	$ 3,879	$ 12.10	
November 3, 2020	November 3, 2022	$ 20,000	—	15,444	$ 245	$ 15.87	

See the "Condensed Consolidated Statements of Stockholders' Equity" for a roll-forward of treasury shares.

9. Income Taxes

During the three months ended March 31, 2022 and 2021, the Company recorded approximately $4.9 million and $9.9 million of income tax expense, respectively. The effective tax rate (“ETR”) for the three months ended March 31, 2022 was 22.0% compared to a 27.4% ETR for the same period in 2021.

In calculating these rates, the Company considered a variety of factors including the forecasted full year pre-tax results, the U.S. federal tax rate, expected non-deductible expenses and estimated state income taxes. The Company’s final ETR for the full year will be dependent on the level of pre-tax income, discrete items, the apportionment of taxable income among state tax jurisdictions and the extent of non-deductible expenses in relation to pre-tax income.

The Company’s income tax provision reflects an estimated annual ETR of 25.8% for 2022, calculated before the impact of discrete items. The effect of reporting discrete items through March 31, 2022 amounts to a decrease to the annual estimated ETR of 380 basis points, resulting in an ETR for the quarter of 22.0%. The annual estimated ETR includes a federal income tax rate of 21% and a state income tax rate, net of federal benefit, of 3.7%.

Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax basis of assets and liabilities at the enacted tax rates. The Company reviews its deferred tax assets regularly for recoverability. Management has reviewed all available evidence, both positive and negative, in determining the need for a valuation allowance with respect to the gross deferred tax assets. In reviewing the gross deferred tax assets, management has concluded that the likelihood for utilization of these deferred tax assets is certain (greater than 50%) and determined that a valuation allowance on any of the deferred tax assets is not required. Management will continue to analyze the gross deferred tax assets on a quarterly basis to determine whether there is a need for a valuation allowance in the future.

The Company files its income tax returns as prescribed by the tax laws of the jurisdictions in which it operates. As of March 31, 2022, the Company’s 2018 through 2020 tax years are still subject to examination by the Internal Revenue Service and various tax years remain open to examination in certain state jurisdictions.

10. Earnings Per Share

Basic earnings per share ("EPS") is computed based on the weighted average number of common shares outstanding for the period, excluding any dilutive common share equivalents. Diluted EPS reflects the potential dilution resulting from exercises of stock options, vesting of performance share units, vesting of restricted stock, vesting of restricted stock units, and conversion of preferred stock.

The following table reconciles the numerator (i.e., income) and denominator (i.e., shares) of the basic and diluted EPS computations for the periods presented (in thousands, except per share data):

	Three Months Ended March 31,	
	2022	2021
Numerator for EPS:		
Net income (loss)	$ 17,537	$ 26,408
Less: Preferred stock dividends	(3)	(3)
Income (loss) available to common stockholders	$ 17,534	$ 26,405
Denominator for EPS:		
Weighted average common shares outstanding	31,147	31,208
Plus: Assumed conversion of share-based compensation (1)	55	44
Assumed conversion of preferred stock	25	25
Weighted average diluted common shares outstanding	31,227	31,277
Basic earnings (loss) per common share	$ 0.56	$ 0.85
Diluted earnings (loss) per common share	$ 0.56	$ 0.84

(1) Represents the dilutive effect of unexercised stock options, unvested performance share units, unvested restricted stock units and unvested restricted stock.

11. Other Comprehensive Income (Loss)

The following table provides the components of other comprehensive income (loss) on a pre-tax and after-tax basis for the periods presented (in thousands):

	Three Months Ended March 31,					
	2022			2021		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Net changes related to available-for-sale securities:						
Unrealized holding gains (losses) arising during the period	$ (57,161)	$ (14,052)	$ (43,109)	$ (22,425)	$ (5,361)	$ (17,064)
Less: Reclassification adjustments for (gains) losses realized in net income (loss)	264	65	199	202	48	154
Other comprehensive income (loss)	$ (56,897)	$ (13,987)	$ (42,910)	$ (22,223)	$ (5,313)	$ (16,910)

The following table provides the reclassification adjustments for gains (losses) out of accumulated other comprehensive income for the periods presented (in thousands):

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) Three Months Ended March 31, 2022	2021	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains (losses) on available-for-sale debt securities			
	$ (264)	$ (202)	Net realized gains (losses) on sale of securities
	65	48	Income taxes
Total reclassification for the period	$ (199)	$ (154)	Net of tax

12. Commitments and Contingencies

Obligations under Multi-Year Reinsurance Contracts

The Company purchases reinsurance coverage to protect its capital and to limit its losses when certain major events occur. The Company's reinsurance commitments generally run from June 1st of the current year to May 31st of the following year. Certain of the Company's reinsurance agreements are for periods longer than one year. Amounts payable for coverage during the current June 1st to May 31st contract period are recorded as "Reinsurance Payable, net" in the Condensed Consolidated Balance Sheet. Effective March 26, 2021, UPCIC entered into a three-year reinsurance agreement with Cosaint Re Pte. Ltd., a reinsurance entity incorporated in Singapore that correspondingly issued notes in a Rule 144A offering to raise proceeds to collateralize its obligations under the reinsurance agreement. Amounts payable for coverage for the second year of the reinsurance agreement with Cosaint Re Pte. Ltd. are also recorded as "Reinsurance Payable, net." Multi-year contract commitments for future years will be recorded at the commencement of the coverage period. Amounts payable for future reinsurance contract years that the Company is obligated to pay are: (1) $80.2 million in 2022; (2) $152.7 million in 2023 and (3) $58.1 million in 2024.

Litigation

Lawsuits and other legal proceedings are filed against the Company from time to time. Many of these legal proceedings involve claims under policies that the Company underwrites and reserves for as an insurer. The Company is also involved in various other legal proceedings and litigation unrelated to claims under the Company's policies that arise in the ordinary course of business operations. Management believes that any liabilities that may arise as a result of these legal matters will not have a material adverse effect on the Company's financial condition or results of operations. The Company contests liability and/or the amount of damages as appropriate in each pending matter.

In accordance with applicable accounting guidance, the Company establishes an accrued liability for legal matters when those matters present loss contingencies that are both probable and estimable.

Legal proceedings are subject to many uncertain factors that generally cannot be predicted with certainty, and the Company may be exposed to losses in excess of any amounts accrued. The Company currently estimates that the reasonably possible losses for legal proceedings, whether in excess of a related accrued liability or where there is no accrued liability, and for which the Company is able to estimate a possible loss, are immaterial. This represents management's estimate of possible loss with respect to these matters and is based on currently available information. These estimates of possible loss do not represent our maximum loss exposure, and actual results may vary significantly from current estimates.

13. Fair Value Measurements

U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. U.S. GAAP describes three approaches to measuring the fair value of assets and liabilities: the market approach, the income approach and the cost approach. Each approach includes multiple valuation techniques. U.S. GAAP does not prescribe which valuation technique should be used when measuring fair value, but does establish a fair value hierarchy that prioritizes the inputs used in applying the various techniques. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. Level 1 inputs are given the highest priority in the hierarchy while Level 3 inputs are given the lowest priority. Assets and liabilities carried at fair value are classified in one of the following three categories based on the nature of the inputs to the valuation technique used:

- Level 1 — Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 — Observable market-based inputs or unobservable inputs that are corroborated by market data.

- Level 3 — Unobservable inputs that are not corroborated by market data. These inputs reflect management’s best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Summary of Significant Valuation Techniques for Assets Measured at Fair Value on a Recurring Basis

Level 1

Common stock: Comprise actively traded, exchange-listed U.S. and international equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

Mutual funds: Comprise actively traded funds. Valuation is based on daily quoted net asset values for identical assets in active markets that the Company can access.

Level 2

U.S. government obligations and agencies: Comprise U.S. Treasury Bills or Notes or U.S. Treasury Inflation Protected Securities. The primary inputs to the valuation include quoted prices for identical assets in inactive markets or similar assets in active or inactive markets, contractual cash flows, benchmark yields and credit spreads.

Corporate bonds: Comprise investment-grade debt securities. The primary inputs to the valuation include quoted prices for identical assets in inactive markets or similar assets in active or inactive markets, contractual cash flows, benchmark yields and credit spreads.

Mortgage-backed and asset-backed securities: Comprise securities that are collateralized by mortgage obligations and other assets. The primary inputs to the valuation include quoted prices for identical assets in inactive markets or similar assets in active or inactive markets, contractual cash flows, benchmark yields, collateral performance and credit spreads.

Municipal bonds: Comprise debt securities issued by a state, municipality or county. The primary inputs to the valuation include quoted prices for identical assets in inactive markets or similar assets in active or inactive markets, contractual cash flows, benchmark yields and credit spreads.

Redeemable preferred stock: Comprise preferred stock securities that are redeemable. The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active.

As required by U.S. GAAP, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the placement of the asset or liability within the fair value hierarchy levels.

The following tables set forth by level within the fair value hierarchy the Company's assets measured at fair value on a recurring basis as of the dates presented (in thousands):

	Fair Value Measurements March 31, 2022			
	Level 1	Level 2	Level 3	Total
Available-For-Sale Debt Securities:				
U.S. government obligations and agencies	$ —	$ 21,661	$ —	$ 21,661
Corporate bonds	—	669,908	—	669,908
Mortgage-backed and asset-backed securities	—	301,522	—	301,522
Municipal bonds	—	13,519	—	13,519
Redeemable preferred stock	—	8,067	—	8,067
Equity Securities:				
Common stock	4,617	—	—	4,617
Mutual funds	60,509	—	—	60,509
Total assets accounted for at fair value	$ 65,126	$ 1,014,677	$ —	$ 1,079,803

	Fair Value Measurements December 31, 2021			
	Level 1	Level 2	Level 3	Total
Available-For-Sale Debt Securities:				
U.S. government obligations and agencies	$ —	$ 26,806	$ —	$ 26,806
Corporate bonds	—	673,805	—	673,805
Mortgage-backed and asset-backed securities	—	316,118	—	316,118
Municipal bonds	—	14,574	—	14,574
Redeemable preferred stock	—	9,152	—	9,152
Equity Securities:				
Common stock	3,683	—	—	3,683
Mutual funds	43,651	—	—	43,651
Total assets accounted for at fair value	$ 47,334	$ 1,040,455	$ —	$ 1,087,789

The Company utilizes third-party independent pricing services that provide a price quote for each available-for-sale debt security and equity security. Management reviews the methodology used by the pricing services. If management believes that the price used by the pricing service does not reflect an orderly transaction between participants, management will use an alternative valuation methodology. There were no adjustments made by the Company to the prices obtained from the independent pricing source for any available-for-sale debt security or equity security included in the tables above.

The following table summarizes the carrying value and estimated fair values of the Company's financial instruments not carried at fair value as of the dates presented (in thousands):

	March 31, 2022		December 31, 2021	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Liabilities (debt):				
Surplus note (1)	$ 6,618	$ 6,385	$ 6,985	$ 6,723
5.625% Senior unsecured notes (2)	100,000	101,810	100,000	99,464
Total debt	$ 106,618	$ 108,195	$ 106,985	$ 106,187

(1) The fair value of the surplus note was determined by management from the expected cash flows discounted using the interest rate quoted by the holder. The SBA is the holder of the surplus note and the quoted interest rate is below prevailing rates quoted by private lending institutions. However, as the Company's use of funds from the surplus note is limited by the terms of the agreement, the Company has determined the interest rate quoted by the SBA to be appropriate for purposes of establishing the fair value of the note (Level 3).

(2) The fair value of the senior unsecured notes was determined based on pricing from quoted prices for similar assets in active markets and was included as Level 2.

14. Variable Interest Entities

The Company entered into a reinsurance arrangement with Isosceles Insurance Ltd. acting in respect of “Separate Account UVE-01”, a VIE in the normal course of business and consolidated the VIE since the Company is the primary beneficiary. The primary beneficiary analysis includes a review of the VIE’s capital structure, related contractual relationships and terms, nature of the VIE’s operations and purpose, nature of the VIE’s interests issued and the Company’s involvement with the entity. When assessing the need to consolidate a VIE, the Company evaluates the design of the VIE as well as the related risks to which the entity was designed to expose the variable interest holders. The primary beneficiary is the entity that has both (i) the power to direct the activities of the VIE that most significantly affect the entity’s economic performance and (ii) the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. While also considering these factors, the consolidation conclusion depends on the Company’s decision-making ability and its ability to influence activities that significantly affect the economic performance of the VIE.

The reinsurance arrangement effective June 1, 2021 through May 31, 2022 was terminated effective December 1, 2021, pursuant to the terms of the agreement. In connection with the termination of the agreement, the affiliates agreed to release funds held in trust due to one of the Insurance Entities (UPCIC) and the balance to the participant of the separate account (UVE) in December 2021.

15. Subsequent Events

The Company performed an evaluation of subsequent events through the date the financial statements were issued and determined there were no recognized or unrecognized subsequent events that would require an adjustment or additional disclosure in the condensed consolidated financial statements as of March 31, 2022.

On April 20, 2022, the Company declared a quarterly cash dividend of $0.16 per share of common stock payable May 20, 2022, to shareholders of record on May 13, 2022.

On April 28, 2022, we closed on the Exchange Offer, thus satisfying the requirements under the Registration Rights Agreements and Exchange Offer disclosed in “Note 7 (Long-term debt).”

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

Unless the context otherwise requires, all references to "we," "us," "our," and "Company" refer to Universal Insurance Holdings, Inc. ("UVE") and its wholly-owned subsidiaries. You should read the following discussion together with our unaudited condensed consolidated financial statements ("Financial Statements") and the related notes thereto included in "Part I, Item 1—Financial Statements," and our audited condensed consolidated financial statements and the related notes thereto included in "Part II, Item 8—Financial Statements and Supplementary Data" in our Annual Report on Form 10-K for the year ended December 31, 2021. Operating results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for the year.

Cautionary Note Regarding Forward-Looking Statements

In addition to historical information, this report may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The forward-looking statements anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These forward-looking statements may be identified by their use of words like "plans," "seeks," "expects," "will," "should," "anticipates," "estimates," "intends," "believes," "likely," "targets," and other words with similar meanings. These statements may address, among other things, our strategy for growth, catastrophe exposure and other risk management, product development, investment results, regulatory approvals, market position, expenses, financial results, litigation and reserves. We believe that these statements are based on reasonable estimates, assumptions and plans. However, if the estimates, assumptions or plans underlying the forward-looking statements prove inaccurate or if other risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements as a result of the risks set forth below, which are a summary of those set forth in our Annual Report on Form 10-K for the year ended December 31, 2021. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

Risks and uncertainties that may affect, or have affected, our financial condition and operating results include, but are not limited to, the following:

- *Unanticipated increases in the severity or frequency of claims, including those relating to catastrophes, severe weather events and changing climate conditions, which, in some instances, have exceeded, and in the future may exceed our reserves established for claims;*
- *Failure of our risk mitigation strategies, including failure to accurately and adequately price the risks we underwrite and to include effective exclusions and other loss limitation methods in our insurance policies;*
- *Loss of independent insurance agents and inability to attract new independent agents;*
- *Reliance on models, which are inherently uncertain, as a tool to evaluate risks;*
- *The continued availability of reinsurance at current levels and prices, and our ability to collect payments due from our reinsurers;*
- *Changes in industry trends, including changes due to the cyclical nature of the industry and increased competition;*
- *Geographic concentration of our business in Florida and the effectiveness of our growth and diversification strategy in new markets;*
- *Loss of key personnel and inability to attract and retain talented employees;*
- *Failure to comply with existing and future guidelines, policies and legal and regulatory standards;*
- *The ability of our claims professionals to effectively manage claims;*
- *Litigation or regulatory actions that could result in significant damages, fines or penalties;*
- *A downgrade in our Financial Stability Rating® and its impact on our competitive position, the marketability of our product offerings, our liquidity and profitability;*
- *The impact on our business and reputation of data and security breaches due to cyber-attacks or our inability to effectively adapt to changes in technology;*
- *Our dependence on the returns of our investment portfolio, which are subject to market risk;*
- *Legal, regulatory or tax changes that increase our operating costs and decrease our profitability, such as limitations on rate changes or requirements to participate in loss sharing;*
- *Our dependence on dividends and permissible payments from our subsidiaries;*
- *The ability of our Insurance Entities to comply with statutory capital and surplus minimums and other regulatory and licensing requirements; and*
- *The ongoing impact of the COVID-19 pandemic on our business and the economy in general.*

OVERVIEW

We are a vertically integrated holding company offering property and casualty insurance and value-added insurance services. We develop, market and underwrite insurance products for consumers predominantly in the personal residential homeowners' line of business and perform substantially all other insurance-related services for our primary insurance entities, including risk management, claims management, and distribution. Our primary insurance entities, Universal Property & Casualty Insurance Company ("UPCIC") and American Platinum Property and Casualty Insurance Company ("APPCIC" and together with UPCIC, the "Insurance Entities"), offer insurance products through both our appointed independent agent network and our online distribution channels across 19 states (primarily in Florida), with licenses to write insurance in two additional states. The Insurance Entities seek to produce an underwriting profit (defined as earned premium minus losses, loss adjustment expense ("LAE"), policy acquisition costs and other operating costs) over the long term; maintain a conservative balance sheet to prepare for years in which the Insurance Entities are not able to achieve an underwriting profit; and generate investment income on assets.

The following Management's Discussion and Analysis ("MD&A") is intended to assist in an understanding of our financial condition and results of operations. This MD&A should be read in conjunction with our Financial Statements and accompanying Notes appearing elsewhere in this Report (the "Notes"). In addition, reference should be made to our audited Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements and "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2021. Except for the historical information contained herein, the discussions in this MD&A contain forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed above under "Cautionary Note Regarding Forward-Looking Statements."

Trends

Florida Trends

We are currently working through a cycle to improve long-term rate adequacy and earnings for the Insurance Entities by increasing rates and managing exposures, while taking advantage of what we believe to be opportunities in a dislocated market. The Florida personal lines homeowners' market currently can be characterized as a "hard market", where insurance premium rates are escalating, insurers are reducing coverages, and underwriting standards are tightening as insurers closely monitor insurance rates and manage coverage capacity. Due to conditions in the Florida market and factors more generally affecting the U.S. and global reinsurance markets, reinsurance capacity in recent years has also been subject to less favorable pricing or terms. These market forces decrease competition among admitted insurers, and ultimately result in the increased use of Citizens Property Insurance Corporation ("Citizens"), which was created to be the State's residual property insurance market. In recent years, in response to adverse behaviors and conditions in the Florida residential market, most admitted market competitors have sought and often received approval for significant rate increases. Meanwhile, Citizens' rate increases are limited by law, resulting in its policies, in a hard market, becoming priced lower than admitted market policies. This causes Citizens to become viewed as a desirable alternative to the admitted market as admitted market insurers manage through the hard market challenges. Our Insurance Entities likewise have taken and continue to take action to manage through this hard market by increasing rates and prudently managing exposures while also maintaining their competitive position in the market and supporting our current policyholders and agents.

While addressing rate adequacy for the Insurance Entities, we continue to experience inflated costs for losses and LAE in the Florida market, where an industry has developed around the solicitation, filing and litigation of personal residential claims. These dynamics have been made worse by the litigation financing industry which in some cases funds these actions. These behaviors are a chief contributing factor for the rate increases in this market. These behaviors result in a pattern of continued increases in year-over-year levels of represented claims, the inflation of purported claim amounts, and increased demands for attorneys' fees. Active solicitation of personal residential claims in Florida by policyholder representatives, remediation companies and repair companies has led to an increase in the frequency and severity of personal residential claims in Florida exceeding historical levels and levels seen in other jurisdictions. Information prepared by the Florida Office of Insurance Regulation also shows that claims in Florida are litigated at a substantially disproportionate rate when compared to other states. This is largely due to a Florida statute providing a one-way right of attorneys' fees against insurers which has, when coupled with certain other statutes and judicial rulings, produced a legal environment in Florida that encourages litigation, in many cases without regard to the underlying merits of the claims. The one-way right to attorneys' fees essentially means that unless an insurer's position is entirely upheld in litigation, the insurer must pay the plaintiff's attorneys' fees in addition to its own defense costs. This affects not only claims that are litigated to resolution, but also the settlement discussions that take place with nearly all litigated claims. This also affects a large number of claims from inception or during the adjusting process as a substantial and growing percentage of policyholders obtain representation early in the process, and sometimes even before notifying insurers of their claims. These market conditions also add, and will continue to add, complexity to efforts to efficiently and expeditiously adjust claims. This is due to an increasing number of policyholders who have one or more recent prior losses with the Insurance Entities or with other insurers, which then require evaluation during subsequent claims and determinations regarding whether property has been repaired consistently with the scope and amount of damage previously asserted.

The one-way right to attorney fees creates a nearly risk-free environment, and incentive, for attorneys to pursue litigation against insurers. The result has been a substantial increase in represented and litigated claims in Florida, far outpacing levels experienced in other states. In April 2021, the Florida legislature passed a bill intending to curtail the adverse claim trends impacting the Florida homeowners' insurance market. Most provisions of the bill went into effect on July 1, 2021. Among its provisions, the bill creates a new pre-suit notice requirement wherein an insured must make a formal monetary demand of a residential property insurer before commencing suit. The Company has established an internal team to review and respond to these pre-suit demands in a further effort to resolve disputes before litigation ensues. Another provision of the new law reduces the time period in which to file a new or reopened claim to two years following the date of loss. Other changes include attempting to curtail the solicitation of certain roof claims and to limit referral fees in connection with certain types of claims. Opponents of the reforms have challenged certain parts of the new law, including obtaining an injunction against provisions that limit the solicitation of roof claims. In light of the recent enactment of these reforms and the litigation that has ensued, it is premature to assess whether the reforms will have their intended effect. Whether these changes are beneficial to consumers, insurers, insurance company holding systems or the residential property insurance market as a whole may not be fully known for some time. Even after the 2021 legislation, the Florida property market has been distressed and continues to experience rising rate levels coupled with reduced underwriting capacity among admitted insurers. Although the Florida legislature considered additional potential reforms in its 2022 regular session, it did not pass any of those reforms. Florida's Governor subsequently called a special legislative session, expected to be held in late May, during which the legislature again will consider property insurance reforms. It is unclear whether the legislature will pass additional reforms in the special session, and if so, whether those reforms will be effective. History has shown that reforms that do not address the underlying cause of problems in the Florida market and instead only address symptoms such as the proliferation of mold, sinkhole or roof claims at best provide only temporary relief and eventually result in the underlying cause manifesting through other perils.

Despite our initiatives, such as those mentioned above, our costs to settle claims in Florida have increased for the reasons mentioned above. For example, the Company has previously increased its current year loss estimates and increased estimates associated with prior years' claims. Over the past three years, even as we have increased our estimates of prospective losses each year, we have recorded adverse claim development on prior years' loss reserves and further strengthened current year losses during the year to address the increasing impact Florida's market disruptions, as well as the impact of rising costs of building materials and labor, have had on the claims process and the establishment of reserves for losses and LAE. The full extent and duration of these market disruptions and inflationary pressures are unknown and still unfolding, and we will monitor the impact of such disruptions on the recording and reporting of claim costs.

The Company has taken a series of steps over time to mitigate the financial impact of these negative trends in the Florida market. We also have closely monitored rate levels, especially in the Florida market, and have submitted rate filings based upon evolving data. However, because rate filings rely upon past loss and expense data and take time to develop, file and implement, we can experience significant delays between identifying needed rate adjustments, gaining approval of rate changes, and ultimately collecting and earning the resulting increased premiums. This is particularly the case in an era of rising costs such as the current Florida market, in which the costs of losses and loss adjustment expenses continue to increase due to Florida's outsized claims litigation environment and inflationary pressure. In addition, the Company has implemented several initiatives in its claims department in response to the adverse market trends. We utilize our process called Fast Track, which is an initiative to handle straightforward, meritorious claims as promptly as possible to mitigate the adverse impacts that can be seen with claims that remain open for longer periods. In addition, we increased our emphasis on subrogation to reduce our net losses while also recovering policyholders' deductibles when losses are attributable to the actions of others. We have an internal staff of trained water remediation experts to address the extraordinary number of purported water damage claims filed by policyholders and vendors. We developed a specialized in-house unit for responding to the unique aspects of represented claims, and we have substantially increased our in-house legal staff in an effort to address the increase in litigated or represented claims as cost-effectively as possible.

Additionally, we have taken steps to implement claim settlement rules associated with the Florida legislation passed in 2019 designed to reduce the negative effects of claims involving assignments of benefits ("AOB"). See "Part I— Item 1—Business—Government Regulation" in our Annual Report on Form 10-K for the year ended December 31, 2021. An AOB is a document signed by a policyholder that allows a third party to be paid for services performed for an insured homeowner who would normally be reimbursed by the insurance company directly after making a claim. Prior to the AOB reform legislation, the Company experienced an increase in AOB-related litigation initiated by vendors, in many cases unbeknownst to policyholders. Claims paid under an AOB often involve unnecessary litigation, with the Company required to pay both its own defense costs and those of the plaintiff, and, as a result, cost the Company significantly more than claims settled when an AOB is not involved. In 2019, the Florida legislature passed legislation designed to increase consumer protections against AOB abuses and reduce AOB-related litigation. While the Florida legislation addressing abuses associated with AOBs may be beneficial in reducing one aspect of the concerns affecting the Florida market, the overall impact of the deterioration in claims-related tactics and behaviors, including other first-party litigation, thus far has continued to outpace benefits arising from the 2019 AOB reform legislation. More recently, following legislation adopted in Florida's 2021 legislative session, we have established procedures and dedicated personnel to a new pre-suit notice and offer process. The new process requires policyholders or their attorneys to notify insurers at least ten days before commencing litigation and allows insurers an opportunity to make pre-suit settlement offers. The policyholders' ability to recover attorneys' fees is determined according to a scale that compares the ultimate outcomes of the cases to the insurers' pre-suit offers. Although this new process is intended to reduce claims litigation and encourage settlements, it is too early to evaluate whether it will be successful in limiting the types of settlement demands and litigation that have plagued the Florida market or in offsetting other factors adversely affecting the market such as increased costs of building materials and labor.

<u>Impact of COVID-19</u>

Subsequent to March 2020, we have not seen a direct material impact from COVID-19 on our business, our financial position, our liquidity, or our ability to service our policyholders and maintain critical operations. Indirectly, inflationary pressures, in part due to supply chain and labor constraints during the pandemic, have affected and continue to affect claims costs and, to a lesser degree, other expenses. As a provider of services that have been deemed essential under most directives and guidelines, we are confident in our ability to maintain consistent operations and believe we can continue to manage with our remote workforce as a result of our disaster preparedness planning, with little impact on our business and service levels and our standards of care for both underwriting and claims. We continue to monitor local, state and federal guidance and will adjust workforce activities as appropriate. Although we have not experienced a direct material impact from COVID-19 since its onset in 2020, the ultimate impact of the COVID-19 pandemic, or future pandemics, on our business and on the economy in general cannot be predicted.

KEY PERFORMANCE INDICATORS

The Company considers the measures and ratios in the following discussion to be key performance indicators for its businesses. Management believes that these indicators are helpful in understanding the underlying trends in the Company's businesses. Some of these indicators are reported on a quarterly basis and others on an annual basis.

These indicators may not be comparable to other performance measures used by the Company's competitors and should only be evaluated together with our condensed consolidated financial statements and accompanying notes.

Definitions of Key Performance Indicators

Book Value Per Common Share — total stockholders' equity, adjusted for preferred stock liquidation, divided by the number of common shares outstanding as of a reporting period. Book value per common share is the excess of assets over liabilities at a reporting period attributed to each share of stock. Changes in book value per common share informs shareholders of retained equity in the Company on a per share basis which may assist in understanding market value trends for the Company's stock.

Combined Ratio — the combined ratio is a measure of underwriting profitability for a reporting period and is calculated by dividing total operating costs and expenses (which is made up of losses and LAE and general and administrative expenses) by premiums earned, net, which is net of ceded premiums earned. Changes to the combined ratio over time provide management with an understanding of costs to operate its business in relation to net premiums it is earning and the impact of rate, underwriting and other business management actions on underwriting profitability. A combined ratio below 100% indicates underwriting profit; a combined ratio above 100% indicates underwriting losses.

Core Loss Ratio — a common operational metric used in the insurance industry to describe the ratio of current accident year expected losses and LAE to premiums earned. Core loss ratio is an important measure identifying profitability trends of premiums in force. Core losses consists of all other losses and LAE, excluding weather events beyond those expected and prior years' reserve development. The financial benefit from the management of claims, including claim fees ceded to reinsurers, is recorded in the condensed consolidated financial statements as a reduction to core losses.

Debt-to-Equity Ratio — long-term debt divided by stockholders' equity. This ratio helps management measure the amount of financing leverage in place in relation to equity and future leverage capacity.

Debt-to-Total Capital Ratio — long-term debt divided by the sum of total stockholders' equity and long-term debt (often referred to as total capital resources). This ratio helps management measure the amount of financing leverage in place (long-term debt) in relation to total capital resources and future leverage capacity.

Direct Premiums Written ("DPW") — reflects the total value of policies issued during a period before considering premiums ceded to reinsurers. Direct premiums written, comprised of renewal premiums, endorsements and new business, is initially recorded as unearned premium in the balance sheet which is then earned pro-rata over the next year or remaining policy term. Direct premiums written reflects current trends in the Company's sale of property and casualty insurance products and amounts that will be recognized as earned premiums in the future.

DPW (Florida) — includes only DPW in the state of Florida. This measure allows management to analyze growth in our primary market and is also a measure of business concentration risk.

Expense Ratio (Including Policy Acquisition Cost Ratio and Other Operating Cost Ratio) — calculated as general and administrative expenses as a percentage of premiums earned, net. General and administrative expenses is comprised of policy acquisition costs and other operating costs, which includes such items as underwriting costs, facilities and corporate overhead. The expense ratio, including the sub-expense ratios of policy acquisition cost ratio and other operating cost ratio, are indicators to management of the Company's cost efficiency in acquiring and servicing its business and the impact of expense items to overall profitability.

Losses and Loss Adjustment Expense Ratio or Loss and LAE Ratio — a measure of the cost of claims and claim settlement expenses incurred in a reporting period as a percentage of premiums earned in that same reporting period. Losses and LAE incurred in a reporting period includes both amounts related to the current accident year and prior accident years, if any, referred to as development. Ultimate losses and LAE are based on actuarial estimates with changes in those estimates recognized in the period the estimates are revised. Losses and LAE consist of claim costs arising from claims occurring and settling in the current period, an estimate of claim costs for reported but unpaid claims, an estimate of unpaid claim costs for incurred-but-not-reported claims and an estimate of claim settlement expenses associated with reported and unreported claims which occurred during the reporting period. The loss and LAE ratio can be measured on a direct basis, which includes losses and LAE divided by direct earned premiums, or on a net basis, which includes losses and LAE after amounts have been ceded to reinsurers divided by net earned premiums (*i.e.*, direct premium earned less ceded premium earned). The net loss and LAE ratio is a measure of underwriting profitability after giving consideration to the effect of reinsurance. Trends in the net loss and LAE ratio are an indication to management of current and future profitability.

Monthly Weighted Average Renewal Retention Rate — measures the monthly average of policyholders that renew their policies over the period of a calendar year. This measure allows management to assess customer retention.

Premiums Earned, Net — the pro-rata portion of current and previously written premiums that the Company recognizes as earned premium during the reporting period, net of ceded premium earned. Ceded premiums are premiums paid or payable by the Company for reinsurance protection. Written premiums are considered earned and are recognized pro-rata over the policy coverage period. Premiums earned, net is a measure that allows management to identify revenue trends.

Policies in Force — represents the number of active policies with coverage in effect as of the end of the reporting period. The change in the number of policies in force is a growth measure and provides management with an indication of progress toward achieving strategic objectives. Inherent seasonality in our business makes this measure more useful when comparing each quarter's balance to the same quarter in prior years.

Premium in Force — is the amount of the annual direct written premiums previously recorded by the Company for policies which are still active as of the reporting date. This measure assists management in measuring the level of insured exposure and progress toward meeting revenue goals for the current year, and provides an indication of business available for renewal in the next twelve months. Inherent seasonality in our business makes this measure more useful when comparing each quarter's balance to the same quarter in prior years.

Return on Average Equity ("ROAE") — calculated by dividing earnings (loss) per common share by average book value per common share. Average book value per common share is computed as the sum of book value per common share at the beginning and the end of a period, divided by two. ROAE is a capital profitability measure of how effectively management creates profits per common share.

Total Insured Value — represents the amount of insurance limits available on a policy for a single loss based on all policies active as of the reporting date. This measure assists management in measuring the level of insured exposure.

Unearned Premiums — represents the portion of direct premiums corresponding to the time period remaining on an insurance policy and available for future earning by the Company. Trends in unearned premiums generally indicate expansion, if growing, or contraction, if reducing, which are important indicators to management. Inherent seasonality in our business makes this measure more useful when comparing each quarter's balance to the same quarter in prior years.

Weather events — an estimate of losses and LAE from weather events occurring during the current accident year that exceed initial estimates of expected weather events when establishing the core loss ratio for each accident year. This metric informs management of factors impacting overall current year profitability.

REINSURANCE

Reinsurance enables our Insurance Entities to limit potential exposures to catastrophic events. Reinsurance contracts are typically classified as treaty or facultative contracts. Treaty reinsurance provides coverage for all or a portion of a specified group or class of risks ceded by the primary insurer, while facultative reinsurance provides coverage for specific individual risks. Within each classification, reinsurance can be further classified as quota share or excess of loss. Quota-share reinsurance is where the primary insurer and the reinsurer share proportionally or pro-rata in the direct premiums and losses of the insurer. Excess-of-loss reinsurance indemnifies the direct insurer or reinsurer for all or a portion of the loss in excess of an agreed upon amount or retention.

Developing and implementing our reinsurance strategy to adequately protect our balance sheet and Insurance Entities in the event of one or more catastrophes while maintaining efficient reinsurance costs has been a key strategic priority for us. In order to limit the Insurance Entities' potential exposure to catastrophic events, we purchase significant reinsurance from third-party reinsurers and the Florida Hurricane Catastrophe Fund ("FHCF"). The Florida Office of Insurance Regulation ("FLOIR") requires the Insurance Entities, like all residential property insurance companies doing business in Florida, to have a certain amount of capital and reinsurance coverage in order to cover losses upon the occurrence of a single catastrophic event and a series of catastrophic events occurring in the same hurricane season. The Insurance Entities' respective 2021-2022 reinsurance programs meet the FLOIR's requirements, which are based on, among other things, successfully demonstrating cohesive and comprehensive reinsurance programs that protect the policyholders of our Insurance Entities as well as satisfying a series of stress test catastrophe loss scenarios based on past historical events. Similarly, the Insurance Entities' respective 2021-2022 reinsurance programs meet the stress test and review requirements of Demotech, Inc., for maintaining Financial Stability Ratings® of A (Exceptional).

We believe the Insurance Entities' retentions under their respective reinsurance programs are appropriate and structured to protect policyholders. We test the sufficiency of the reinsurance programs by subjecting the Insurance Entities' personal residential exposures to statistical testing using a third-party hurricane model, RMS RiskLink v18.1 (Build 1945). This model combines simulations of the natural occurrence patterns and characteristics of hurricanes, tornadoes, earthquakes and other catastrophes with information on property values, construction types and occupancy classes. The model outputs provide information concerning the potential for large losses before they occur, so companies can prepare for their financial impact. Furthermore, as part of our operational excellence initiatives, we continually look to enable new technology to refine our data intelligence on catastrophe risk modeling.

Effective June 1, 2021, the Insurance Entities entered into multiple reinsurance agreements comprising our 2021-2022 reinsurance program. See "Item 1—Note 4 (Reinsurance)."

UPCIC's 2021-2022 Reinsurance Program

- First event All States retention of $45 million during the 2021 Atlantic hurricane season, first event Non-Florida retention of $15 million.
- All States first event reinsurance protection extends to $3.364 billion with no co-participation in any of the layers and no limitation on loss adjustment expenses for the non-catastrophe bond Cosaint Re Pte. Ltd. traditional reinsurance while maintaining the same favorable historical deposit premium payment schedules.
- Assuming a first event completely exhausts the $3.364 billion tower, the second event exhaustion point would be $1.101 billion.
- Full reinstatement available on $1.06 billion of the $1.356 billion of non-FHCF first event catastrophe coverage for guaranteed second event coverage. For all layers purchased between $45 million and the projected FHCF retention, to the extent that all of our coverage or a portion thereof is exhausted in a catastrophic event and reinstatement premium is due, we have purchased enough reinstatement premium protection ("RPP") limit to pay the premium necessary for the reinstatement of these coverages.
- Specific 3rd and 4th event private market catastrophe excess of loss coverage of $86 million in excess of $25 million provides frequency protection for multiple events during the treaty period.
- For the FHCF Reimbursement Contract effective June 1, 2021, UPCIC has continued the election of the 90% coverage level. We estimate the FHCF layer will provide approximately $1.963 billion of coverage for UPCIC, which inures to the benefit of the open market coverage secured from private reinsurers.
- Secured $383 million of new catastrophe capacity with contractually agreed limits that extend coverage to include the 2022 and 2023 wind seasons. This amount does not include the single limit of $150 million of protection for named windstorm events, which now definitively includes the 2022 wind season and potentially could include the 2023 wind season depending on loss activity in the 2022 wind season, that UPCIC obtained in March 2021 when it entered into a three-year reinsurance agreement with Cosaint Re Pte. Ltd., a reinsurance entity incorporated in Singapore that correspondingly issued notes in a Rule 144A offering to raise proceeds to collateralize its obligations under this agreement.

The first event All States program described above for UPCIC includes coverage from a captive insurance arrangement that UVE established which inures to the benefit of UPCIC. This intercompany transaction provides UPCIC approximately $13.2 million of reinsurance protection on the first layer of UPCIC's first event All States program. This transaction eliminates in consolidation effectively increasing the first event retention noted above to $58.2 million for the consolidated group in the event this limit is exhausted.

The captive insurance arrangement effective June 1, 2021 through May 31, 2022 was terminated effective December 1, 2021, pursuant to the terms of the agreement. In connection with the termination of the agreement, and according to its terms, certain funds held in trust were released to the beneficiary (i.e., UPCIC) and the balance was remitted to the grantor (i.e., UVE) in December 2021. The termination of the agreement results in a first-event All States retention of $58.2 million for UPCIC for the period of December 1, 2021 to May 31, 2022, which is outside of the traditional Atlantic hurricane season.

Reinsurers

The table below provides the A.M. Best and S&P financial strength ratings for each of the largest third-party reinsurers in UPCIC's 2021-2022 reinsurance program:

Reinsurer	A.M. Best	S&P
Allianz Risk Transfer	A+	AA-
Everest Re	A+	A+
Chubb Tempest Reinsurance Ltd.	A++	AA
Munich Re	A+	AA-
Renaissance Re	A+	A+
Various Lloyd's of London Syndicates	A	A+
Florida Hurricane Catastrophe Fund (1)	N/A	N/A

(1) No rating is available, because the fund is not rated.

APPCIC's 2021-2022 Reinsurance Program

- First event All States retention of $2.5 million.
- All States first event tower of $38 million with no co-participation in any of the layers and no limitation on loss adjustment expenses while maintaining the same favorable historical deposit premium payment schedules.
- Full reinstatement available for all private market first event catastrophe layers for guaranteed second event coverage. For the layer purchased between $2.5 million and the projected FHCF retention, to the extent that all of our coverage or a portion thereof is exhausted in a catastrophic event and reinstatement premium is due, we have purchased enough RPP limit to pay the premium necessary for the reinstatement of this coverage.
- APPCIC also purchases extensive multiple line excess per risk reinsurance with various reinsurers due to the high-value risks it insures in both the personal residential and commercial multiple peril lines of business. Under this multiple line excess per risk contract, APPCIC has coverage of $8.5 million in excess of $0.5 million ultimate net loss for each risk and each property loss, and $1 million in excess of $0.3 million for each casualty loss. A $19.5 million aggregate limit applies to the term of the contract for property-related losses and a $2.0 million aggregate limit applies to the term of the contract for casualty-related losses. This contract also contains a profit-sharing feature if specific performance measures are met.
- For the FHCF Reimbursement Contract effective June 1, 2021, APPCIC has continued the election of the 90% coverage level. We estimate the FHCF layer will provide approximately $18.4 million of coverage for APPCIC, which inures to the benefit of the open market coverage secured from private reinsurers.

Reinsurers

The table below provides the A.M. Best and S&P financial strength ratings for each of the largest third-party reinsurers in APPCIC's 2021-2022 reinsurance program:

Reinsurer	A.M. Best	S&P
Chubb Tempest Reinsurance Ltd.	A++	AA
Lancashire Insurance Company Limited	A	A-
Various Lloyd's of London Syndicates	A	A+
Florida Hurricane Catastrophe Fund (1)	N/A	N/A

(1) No rating is available, because the fund is not rated.

The total cost of the 2021-2022 reinsurance programs for UPCIC and APPCIC, excluding internal reinsurance discussed above, is projected to be $584 million, representing approximately 35% of estimated direct premium earned for the 12-month treaty period.

RESULTS OF OPERATIONS AND ANALYSIS OF FINANCIAL CONDITION

Highlights for the quarter ended March 31, 2022

- Approved rate filings are increasing written and earned premium as they take effect and earn in over the policy period
- Rate increases for Pennsylvania and Indiana were approved and implemented with a number of rate filings underway
- Exposure management efforts designed to improve underwriting results are resulting in a reduction in policy count and related fees
- Net investment income increased as market interest rates rise, however the rising interest rates have lowered the market value of our investments resulting in unrealized losses
- Losses and LAE, net were higher this quarter compared to the same period last year primarily due to a higher rate of accrual for the current accident year reserves to address trends in Florida
- Expense management efforts lowered the expense ratio including lower commission rates on renewals and spending discipline
- The company continued to return shareholder value with quarterly dividends and modest share repurchases
- Demotech, Inc. affirmed the Financial Stability Rating® of A, Exceptional for each of the Insurance Entities

First quarter of fiscal 2022 results of operations comparisons are to first quarter of fiscal 2021 (unless otherwise specified).

Results of Operations — Three Months Ended March 31, 2022 Compared to Three Months Ended March 31, 2021

Net income for the three months ended March 31, 2022, was $17.5 million compared to $26.4 million for the same period in 2021. Weighted average diluted common shares outstanding for the three months ended March 31, 2022 were lower by 0.2% to 31.2 million shares from 31.3 million shares for the same period of the prior year. Diluted EPS for the three months ended March 31, 2022 was $0.56 compared to $0.84 for the same period in 2021. Benefiting the quarter were increases in premiums earned, net, an increase in commission revenue, and an increase in net investment income, partially offset by an increase in operating costs and expenses, a decrease in realized gains and an increase in unrealized losses on equity securities. Direct premium earned and premiums earned, net were up 10.4% and 10.6%, respectively, due to premium growth in 15 of the 19 states in which we are licensed and writing during the past 12 months as a result of rate increases implemented during 2021 and 2022. The net loss and LAE ratio was 68.8% for the three months ended March 31, 2022, compared to 59.2% for the same period in 2021 reflecting higher core losses, an increase in excess weather events beyond those expected, and higher prior years' reserve development. As a result of the above and further explained below, the combined ratio for the three months ended March 31, 2022 was 97.9% compared to 93.1% for the three months ended March 31, 2021. Also see the discussion above under "Overview—Trends."

A detailed discussion of our results of operations follows the table below (in thousands, except per share data).

	Three Months Ended March 31,		Change	
	2022	2021	$	%
PREMIUMS EARNED AND OTHER REVENUES				
Direct premiums written	$ 396,481	$ 365,314	$ 31,167	8.5 %
Change in unearned premium	18,122	10,292	7,830	76.1 %
Direct premium earned	414,603	375,606	38,997	10.4 %
Ceded premium earned	(145,539)	(132,301)	(13,238)	10.0 %
Premiums earned, net	269,064	243,305	25,759	10.6 %
Net investment income	4,042	2,986	1,056	35.4 %
Net realized gains (losses) on investments	58	542	(484)	(89.3)%
Net change in unrealized gains (losses) of equity securities	(3,396)	(494)	(2,902)	587.4 %
Commission revenue	11,161	9,126	2,035	22.3 %
Policy fees	4,779	5,387	(608)	(11.3)%
Other revenue	1,774	1,905	(131)	(6.9)%
Total premiums earned and other revenues	287,482	262,757	24,725	9.4 %
OPERATING COSTS AND EXPENSES				
Losses and loss adjustment expenses	185,106	143,963	41,143	28.6 %
General and administrative expenses	78,297	82,423	(4,126)	(5.0)%
Total operating costs and expenses	263,403	226,386	37,017	16.4 %
Interest and amortization of debt issuance costs	1,608	20	1,588	7,940.0 %
INCOME (LOSS) BEFORE INCOME TAXES	22,471	36,351	(13,880)	(38.2)%
Income tax expense (benefit)	4,934	9,943	(5,009)	(50.4)%
NET INCOME (LOSS)	$ 17,537	$ 26,408	$ (8,871)	(33.6)%
Other comprehensive income (loss), net of taxes	(42,910)	(16,910)	(26,000)	153.8 %
COMPREHENSIVE INCOME (LOSS)	$ (25,373)	$ 9,498	$ (34,871)	NM
DILUTED EARNINGS (LOSS) PER SHARE DATA:				
Diluted earnings (loss) per common share	$ 0.56	$ 0.84	$ (0.28)	(33.3)%
Weighted average diluted common shares outstanding	31,227	31,277	(50)	(0.2)%

NM – Not Meaningful

Direct premiums written increased by $31.2 million, or 8.5%, for the quarter ended March 31, 2022, driven by premium growth within our Florida business of $27.4 million, or 8.9%, and premium growth in our other states business of $3.7 million, or 6.4%, as compared to the same period of the prior year. Rate increases approved in 2020 and 2021 for Florida and for certain other states, as discussed below, were the principal driver of higher written premiums. In total policies in force declined 26,848, or

2.8%, from 943,593 at December 31, 2021 to 916,745 at March 31, 2022. A summary of the recent rate increases which are driving increases in written premium are as follows:

- In December 2020, the FLOIR approved an overall 7.0% rate increase for UPCIC on Florida personal residential homeowners' line of business, effective December 2020 for new business and March 2021 for renewals.
- In September 2021, the FLOIR approved an overall 14.9% rate increase for UPCIC on Florida personal residential homeowners' line of business, effective September 2021 for new business and November 2021 for renewals.
- In December 2021, the FLOIR approved an overall 3.9% rate increase for UPCIC on Florida personal residential homeowners' line of business, effective January 2022 for new business and March 2022 for renewals.
- In addition, during the past year, rate increases for UPCIC were approved in Alabama, Georgia, Indiana, Minnesota, North Carolina, Pennsylvania and Virginia.

These rate increases are applied on new business submissions and renewals from the effective date of their renewal and then are earned subsequently over the policy period. The recent rate increases in Florida are in response to rising claim costs driven by higher costs of material and labor associated with claims, the cost of weather events, the rising cost of catastrophe and other reinsurance protecting policyholders and, more importantly, the impact of "social inflation" on claims as claim settlements increasingly have involved inflated demands, representation and litigation. In addition, the Insurance Entities' policies provide for coverage limits to be adjusted at renewal based on third-party data sources that monitor factors such as changes in costs for residential building materials and labor.

During 2022, management continued efforts to prudently manage policy counts and exposures intended to slow the growth of written premiums relating to new business compared to prior years while the above rate increases are taking effect. Reduced new business writings, declines in renewal retentions during 2022 and the impact of selected policy non-renewals, has resulted in a decrease in policies in force of 26,848, or 2.8%, from 943,593 at December 31, 2021 to 916,745 at March 31, 2022. Direct premiums written continue to increase across the majority of states in which we conduct business. As a result of our business strategy, rate changes and disciplined underwriting initiatives, we have seen a decrease in policy count, but an increase in in-force premium and total insured value in a majority of states for the past three years. In total, we wrote policies in 19 states during each of the first quarters of 2022 and 2021. In addition, we are authorized to do business in Tennessee and Wisconsin and are proceeding with product filings in those states. At March 31, 2022, policies in force decreased 59,505 policies, or 6.1%, premium in force increased $154.5 million, or 10.0%, and total insured value increased $13.8 billion, or 4.5%, compared to March 31, 2021.

The following table provides direct premiums written for Florida and Other States for the three months ended March 31, 2022 and 2021 (dollars in thousands):

	For the Three Months Ended				Growth year over year	
	March 31, 2022		March 31, 2021			
State	Direct Premiums Written	%	Direct Premiums Written	%	$	%
Florida	$ 334,437	84.4 %	$ 307,011	84.0 %	$ 27,426	8.9 %
Other states	62,044	15.6 %	58,303	16.0 %	3,741	6.4 %
Total	$ 396,481	100.0 %	$ 365,314	100.0 %	$ 31,167	8.5 %

We seek to prudently grow and generate long-term rate adequate premium in each state where we offer policies. Our diversification strategy seeks to increase business outside of Florida and to improve geographical distribution within Florida. Premium growth outside Florida is a measure monitored by management in its efforts to meet that objective.

Direct premium earned increased by $39.0 million, or 10.4%, for the quarter ended March 31, 2022, reflecting the earning of premiums written over the past 12 months including the benefit of rate changes.

Reinsurance enables our Insurance Entities to limit potential exposures to catastrophic events and other covered events. Ceded premium represents premiums paid to reinsurers for this protection and is a cost which reduces net written and net earned premiums. Ceded premium earned increased $13.2 million, or 10.0%, for the quarter ended March 31, 2022, as compared to the same period of the prior year. The increase in reinsurance costs reflects an increase in the value of exposures we insure; increased pricing when compared to the expired reinsurance program and differences in the structure and design of the respective programs. Reinsurance costs, as a percentage of direct premium earned, decreased from 35.2% for the three months ended March 31, 2021 to 35.1% for the three months ended March 31, 2022, primarily due to $2.6 million of reinstatement premiums related to Hurricane Sally recorded in the prior year quarter. Reinsurance costs associated with each year's reinsurance program are earned over the annual policy period which typically runs from June 1st to May 31st. See the discussion above for the Insurance Entities' 2021-2022 reinsurance programs and "Item 1—Note 4 (Reinsurance)."

Premiums earned, net of ceded premium earned, grew by 10.6%, or $25.8 million, to $269.1 million for the three months ended March 31, 2022, reflecting an increase in direct premium earned offset by increased costs for reinsurance.

Net investment income was $4.0 million for the three months ended March 31, 2022, compared to $3.0 million for the same period in 2021, an increase of $1.1 million, or 35.4%. In the fourth quarter of 2021, we saw increases in investment yields as the Federal Reserve took action to address the market concerns of inflation and employment. As a result, liquidity generated by our portfolio from interest payments, principal repayments and new investments are being invested at higher rates, resulting in overall increased investment returns on our portfolio.

Total invested assets were $1,085.6 million as of March 31, 2022 compared to $1,093.7 million as of December 31, 2021. The decrease is attributable to unrealized losses, which increased during the three months ended March 31, 2022 and lower cash balances. Cash and cash equivalents were $165.4 million at March 31, 2022 compared to $250.5 million at December 31, 2021, a decrease of 34.0%. This decrease is largely attributable to changes in operational cash flows since year end. Cash and cash equivalents are invested short term until needed to settle loss and LAE payments, reinsurance premium payments and operating cash needs or until they are deployed by our investment advisors.

Yields from cash and cash equivalents, short-term investments and the available-for-sale debt portfolio are dependent on the composition of the portfolio, future market forces, monetary policy and interest rate policy from the Federal Reserve. During most of 2021, the Federal Reserve broadly maintained lower interest rates, which impacted the effective yields on newly purchased available-for-sale debt securities and overnight cash purchases and short-term investments. This overall trend changed in late 2021 and into 2022 as inflation worries began to impact the financial markets, including the markets' concern over future Federal Reserve actions of rate hikes and other actions to address inflation concerns. As a result, we saw increased yields on securities purchased in late 2021 and 2022 and increased unrealized losses on our portfolio, reflected after-tax in the equity section of our balance sheet as increased market yields negatively impacted the fair value of much of our available-for-sale debt securities.

We sell investments, including securities, from our investment portfolio from time to time to meet our investment objectives or take advantage of market opportunities. During the three months ended March 31, 2022, sales of available-for-sale debt securities resulted in net realized losses of $0.2 million and sales of equity securities resulted in net realized gains of $0.3 million, generating total net realized gains of $0.1 million during the first quarter of 2022. During the three months ended March 31, 2021, sales of available-for-sale debt securities resulted in net realized losses of $0.2 million, sales of equity securities resulted in net realized gains of $0.3 million and the sale of an investment real estate property resulted in a realized gain of $0.4 million, in total generating net realized gains of $0.5 million. See "Item 1—Note 3 (Investments)."

There was a $3.4 million net unrealized loss in equity securities during the three months ended March 31, 2022 compared to a $0.5 million net unrealized loss in equity securities during the three months ended March 31, 2021. Net change in unrealized gains or losses reflected on the income statement are the result of changes in the fair market value of our equity securities during the period for securities still held at the end of the reported period and the reversal of unrealized gains or losses for securities sold during the period. See "Item 1—Note 3 (Investments)."

Commission revenue is comprised principally of brokerage commissions we earn from third-party reinsurers (excluding the FHCF) on reinsurance placed for the Insurance Entities. Commission revenue is earned pro-rata over the reinsurance policy period which runs from June 1st to May 31st of the following year. For the three months ended March 31, 2022, commission revenue was $11.2 million, compared to $9.1 million for the three months ended March 31, 2021. The increase in commission revenue of $2.0 million, or 22.3%, for the three months ended March 31, 2022 was primarily due to increased commissions from third-party reinsurers earned on increased reinsurance premiums which is attributable due to growth in our insured values for this year's reinsurance program as well as the difference in pricing and structure associated with our reinsurance program when compared to the prior year.

Policy fees were $4.8 million for the three months ended March 31, 2022 compared to $5.4 million for the same period in 2021. The decrease of $0.6 million, or 11.3%, was the result of a decrease in the combined total number of new and renewal policies written during the three months ended March 31, 2022 compared to the same period in 2021 in states where we are permitted to charge this fee.

Other revenue, representing revenue from policy installment fees, premium financing and other miscellaneous income, was $1.8 million for the three months ended March 31, 2022 compared to $1.9 million for the same period in 2021.

The following table presents losses and LAE incurred on a direct, ceded and net basis expressed in dollars and as a percent of the respective amounts of premiums earned. These amounts are further categorized as i) core losses, ii) weather events for the current accident year and iii) prior years' reserve development (dollars in thousands):

	Three Months Ended March 31, 2022					
	Direct	Loss Ratio	Ceded	Loss Ratio	Net	Loss Ratio
Premiums earned	$ 414,603		$ 145,539		$ 269,064	
Loss and loss adjustment expenses:						
Core losses	$ 179,950	43.4 %	$ 44	— %	$ 179,906	66.9 %
Weather events*	4,545	1.1 %	—	— %	4,545	1.7 %
Prior years' reserve development	10,660	2.6 %	10,005	6.9 %	655	0.2 %
Total losses and loss adjustment expenses	$ 195,155	47.1 %	$ 10,049	6.9 %	$ 185,106	68.8 %

*Includes only current year weather events beyond those expected.

	Three Months Ended March 31, 2021					
	Direct	Loss Ratio	Ceded	Loss Ratio	Net	Loss Ratio
Premiums earned	$ 375,606		$ 132,301		$ 243,305	
Loss and loss adjustment expenses:						
Core losses	$ 145,228	38.7 %	$ 28	— %	$ 145,200	59.7 %
Weather events*	—	—	—	—	—	—
Prior years' reserve development	92,070	24.5 %	93,307	70.5 %	(1,237)	(0.5)%
Total losses and loss adjustment expenses	$ 237,298	63.2 %	$ 93,335	70.5 %	$ 143,963	59.2 %

*Includes only current year weather events beyond those expected.

See "Item 1—Note 6 (Liability for Unpaid Losses and Loss Adjustment Expenses)" for change in liability for unpaid losses and LAE.

Management looks at losses and LAE in three areas, as described below and represented in the tables above, each of which has different drivers that impact reported results. As a result, these components of losses and LAE are described separately. Overall losses and LAE, net of reinsurance recoveries, were $185.1 million resulting in a 68.8% net loss and LAE ratio for the quarter ended March 31, 2022. This compares to $144.0 million resulting in a 59.2% net loss and LAE ratio for the quarter ended March 31, 2021.

The factors impacting losses and LAE are as follows:

- Core losses
    - Our core losses consist of all losses and LAE for the current year excluding both weather events for the current year beyond those anticipated in our regular accrual process and prior years' reserve development. Core losses were 43.4% of direct premium earned for the quarter ended March 31, 2022 compared to 38.7% for the same period in 2021. These losses and loss ratios benefit from the potential profits generated through the management of claims by our claims adjusting affiliate, including claim fees ceded to reinsurers, which are described below, reducing core losses. The core loss ratio for 2021 and 2022 reflects actions taken by management to increase its loss pick to accrue for current accident year reserves. The trend in core losses and LAE is increasing year over year as the claims environment in Florida continues to deteriorate. Also see the discussion above under "Overview—Trends." Core losses also increase as premium volume increases year over year.
- Weather events beyond those expected
    - There were $4.5 million of weather events beyond those expected and included in the core losses during the quarter ended March 31, 2022.
    - There were no weather events beyond those expected during the quarter ended March 31, 2021.

- Prior years' reserve development
  - Two drivers influence the amounts recorded as prior years' reserve development, namely: (i) changes to prior estimates of direct and net ultimate losses on prior accident years excluding major hurricanes and (ii) changes to prior estimates of direct and net ultimate losses on hurricanes.
    - During the quarter ended March 31, 2022, prior years' reserve development totaled $10.7 million of direct losses and $0.7 million of net unfavorable loss development after the benefit of reinsurance.
      - For hurricanes, prior years' reserve development for the quarter ended March 31, 2022 was the result of a direct increase in the ultimate losses of $10.7 million offset by ceded hurricane losses of $10.0 million resulting in net unfavorable development of $0.7 million. Direct and net losses increased for Hurricanes Irma and Matthew. Hurricane Irma direct losses increased $10.6 million and net losses increased $0.6 million. Hurricane Matthew direct and net losses increased $0.1 million.
      - Excluding hurricanes, there was no prior years' reserve development for the quarter ended March 31, 2022.
    - For the quarter ended March 31, 2021, direct prior years' reserve development of $92.1 million, less $93.3 million ceded, resulted in $1.2 million net development.
      - Prior years' reserve development for the quarter ended March 31, 2021 was the result of a gross increase in the ultimate losses for Hurricane Sally of $92 million. Changes to ceded reserves on prior years' hurricanes exceeded gross development by $1.2 million, resulting in net favorable development on prior years' reserve development. There was an increase in ceded reserves on Hurricane Sally as a result of recoveries on losses outside of Florida, which have a lower attachment point, offset by a reduction in Hurricane Irma recoveries representing previously ceded losses not subject to recovery. As a result, net prior years' reserve development was favorable.
      - Excluding hurricanes, there was no prior years' reserve development for the quarter ended March 31, 2021.

The financial benefit generated by our claims adjusting affiliate from the management of claims, including claim fees ceded by our Insurance Entities to reinsurers, was $2.1 million for the three months ended March 31, 2022, compared to $8.1 million during the three months ended March 31, 2021, driven by the recoveries from reinsurers and internal claim services. The benefit was recorded in the condensed consolidated financial statements as a reduction to losses and LAE.

For the three months ended March 31, 2022, general and administrative expenses were $78.3 million compared to $82.4 million during the same period in 2021, as follows (dollars in thousands):

	Three Months Ended March 31,				Change	
	2022		2021		$	%
	$	Ratio	$	Ratio		
Premiums earned, net	$ 269,064		$ 243,305		$ 25,759	10.6 %
General and administrative expenses:						
Policy acquisition costs	54,723	20.3 %	56,458	23.2 %	(1,735)	(3.1)%
Other operating costs	23,574	8.8 %	25,965	10.7 %	(2,391)	(9.2)%
Total general and administrative expenses	$ 78,297	29.1 %	$ 82,423	33.9 %	$ (4,126)	(5.0)%

General and administrative expenses decreased by $4.1 million, which was the result of a decrease in policy acquisition costs of $1.7 million and other operating costs of $2.4 million. The total general and administrative expense ratio was 29.1% for the three months ended March 31, 2022 compared to 33.9% for the same period in 2021.

- The decrease in policy acquisition costs of $1.7 million reflects a reduction in the commission rate paid to agents on the renewal of Florida policies which was reduced by 2 percentage points to 10% effective April 1, 2021. The commission rate paid to agents on the renewal of Florida polices will be reduced by an additional 2 percentage points to 8% effective May 1, 2022, which will benefit future periods as the new rate structure applies prospectively. The decrease in policy acquisition costs as a percentage of premiums earned, net during the quarter is primarily due to the reduction in commissions paid to agents.
- The decrease in other operating costs of $2.4 million primarily reflects lower employee benefits and performance bonus accruals. The other operating cost ratio was 8.8% for the three months ended March 31, 2022, compared to 10.7% for the same period in 2021. This reduction reflects several factors including economies of scale as we continue to grow premium, and efficiencies gained from leveraging technology and spending discipline.

As a result of the above, the combined ratio for the first quarter ended March 31, 2022 was 97.9% compared to 93.1% for the same period in 2021. The increase was the result of a decrease in the general and administrative expense ratio offset by an increase in the loss and LAE ratio as described above.

Interest and amortization of debt issuance costs increased $1.6 million for the three months ended March 31, 2022. The increase in interest and amortization of debt issuance costs is the result of an increase in the outstanding debt as a result of our fourth quarter of 2021 borrowing. See “Item 1—Note 7 (Long-term debt)” for additional details.

Income tax expense was $4.9 million for the quarter ended March 31, 2022 compared to an income tax expense of $9.9 million for the quarter ended March 31, 2021. Our effective tax rate (“ETR”) decreased to 22.0% for the three months ended March 31, 2022, as compared to 27.4% for the three months ended March 31, 2021. The ETR decreased as a result of a lower ratio of permanent items relative to the amount of income before taxes, principally non-deductible compensation, and a higher level of discrete tax benefits primarily due an increase in the Florida corporate income tax rate enacted on January 1, 2022.

Other comprehensive loss, net of taxes for the three months ended March 31, 2022, was $42.9 million compared to other comprehensive loss of $16.9 million for the same period in 2021, reflecting after-tax changes in fair value of available-for-sale debt securities held in our investment portfolio and reclassifications out of accumulated other comprehensive income for available-for-sale debt securities sold. See “Item 1—Note 11 (Other Comprehensive Income (Loss))” for additional information about the amounts comprising other comprehensive income (loss), net of taxes for these periods.

Analysis of Financial Condition—As of March 31, 2022 Compared to December 31, 2021

We believe that cash flows generated from operations will be sufficient to meet our working capital requirements for at least the next twelve months. We invest amounts considered to be in excess of current working capital requirements.

The following table summarizes, by type, the carrying values of investments as of the dates presented (in thousands):

	As of	
Type of Investment	March 31, 2022	December 31, 2021
Available-for-sale debt securities	$ 1,014,677	$ 1,040,455
Equity securities	65,126	47,334
Investment real estate, net	5,845	5,891
Total	$ 1,085,648	$ 1,093,680

See "Item 1—Condensed Consolidated Statements of Cash Flows" and "Item 1—Note 3 (Investments)" for explanations on changes in investments.

Prepaid reinsurance premiums represent the portion of unearned ceded written premium that will be earned pro-rata over the coverage period of our reinsurance program, which runs from June 1st to May 31st of the following year. The decrease of $131.6 million to $109.4 million as of March 31, 2022 was due to the amortization of ceded written premium for the reinsurance costs relating to our 2021-2022 catastrophe reinsurance program earned during the period.

Reinsurance recoverable represents the estimated amount of paid and unpaid losses, LAE and other expenses that are expected to be recovered from reinsurers. The decrease of $80.9 million to $104.7 million as of March 31, 2022 was primarily due to the collections of amounts recoverable from reinsurers relating to settled claims from hurricanes and covered by our reinsurance contracts.

Premiums receivable, net, represents amounts receivable from policyholders. The decrease in premiums receivable, net of $3.3 million to $61.7 million as of March 31, 2022 relates to consumer payment behavior of our business. The amount of direct premiums written during a calendar year tends to increase just prior to the second quarter and tends to decrease approaching the fourth quarter.

Deferred policy acquisition costs ("DPAC") decreased by $5.2 million to $103.6 million as of March 31, 2022, which is consistent with the seasonal premium trends of written premium. In addition DPAC was impacted by the reduction to Florida renewal commissions implemented during 2021 and other changes to the Company's commission structure. See "Item 1—Note 5 (Insurance Operations)" for a roll-forward in the balance of our DPAC.

Income taxes recoverable represents the difference between estimated tax obligations and tax payments made to taxing authorities. As of March 31, 2022, the balance recoverable was $2.3 million, representing amounts due from taxing authorities at that date, compared to a balance recoverable of $16.9 million as of December 31, 2021. Income taxes recoverable as of March 31, 2022 will either be refunded or applied to future periods to offset future federal and state income tax obligations.

Deferred income taxes represent the estimated tax asset or tax liability caused by temporary differences between the tax return basis of certain assets and liabilities and amounts recorded in the financial statements. During the three months ended March 31, 2022, deferred tax assets increased by $23.7 million to $40.1 million primarily due to an increase in unrealized losses on investments and a decrease in unearned premiums net of prepaid reinsurance premiums. Deferred income taxes reverse in future years as the temporary differences between book and tax reverse.

See "Item 1—Note 6 (Liability for Unpaid Losses and Loss Adjustment Expenses)" for a roll-forward in the balance of our unpaid losses and LAE. Unpaid losses and LAE decreased by $101.7 million to $244.5 million as of March 31, 2022. The majority of the decrease is from the settlement of losses from prior hurricanes and prior large weather events. Overall, unpaid losses and LAE decreased, as claim settlements exceeded new emerging claims. Unpaid losses and LAE are net of estimated subrogation recoveries.

Unearned premiums represent the portion of direct premiums written that will be earned pro-rata in the future. The decrease of $18.1 million from December 31, 2021 to $839.6 million as of March 31, 2022 reflects the seasonality of our business, which varies from month to month.

Advance premium represents premium payments made by policyholders ahead of the effective date of the policies. The increase of $31.4 million to $85.1 million as of March 31, 2022 reflects customer payment behavior and the payment behavior of mortgage escrow service providers.

We maintain a short-term cash investment strategy sweep to maximize investment returns on cash balances. There were no book overdrafts as of March 31, 2022 compared to book overdrafts totaling $26.8 million as of December 31, 2021. The decrease of $26.8 million is the result of higher cash balances available for offset as of March 31, 2022 compared to December 31, 2021. See "—Liquidity and Capital Resources" for more information.

Reinsurance payable, net, represents the unpaid reinsurance premium installments owed to reinsurers, unpaid reinstatement premiums due to reinsurers and cash advances received from reinsurers, if any. On June 1st of each year, we renew our core catastrophe reinsurance program and record the estimated annual cost of our reinsurance program. These estimated annual costs are increased or decreased during the year based on premium adjustments or as a result of new placements during the year. The annual cost initially increases reinsurance payable, which is then reduced as installment payments are made over the policy period of the reinsurance, which typically runs from June 1st to May 31st. The balance decreased by $175.9 million to $12.7 million as of March 31, 2022 as a result of the timing of the above items.

Other liabilities and accrued expenses increased by $16.4 million to $43.8 million as of March 31, 2022, primarily driven from an increase in unearned revenue and other liabilities due to the timing of payments.

Capital resources, net, decreased by $33.7 million for the three months ended March 31, 2022, reflecting a net decrease in total stockholders' equity and long-term debt. The change in stockholders' equity was principally the result of increases coming from our 2022 net income and share-based compensation, offset by declines in the after-tax changes in the fair value of our available-for-sale debt securities, treasury share purchases and dividends to shareholders. Available-for-sale debt securities decline in fair value of $56.9 million (before tax) in the first quarter of 2022, caused the net unrealized loss position of $20.2 million at December 31, 2021 to increase to $77.2 million at March 31, 2022. Current market outlooks are signaling further Federal Reserve tightening which could continue to have a negative impact on the valuation of available-for-sale debt securities. See "Item 1—Condensed Consolidated Statements of Stockholders' Equity" and "Item 1—Note 8 (Stockholders' Equity)" for explanation of changes in treasury stock.

The reduction in debt of $0.4 million was the result of principal payments on debt during 2022. See "—Liquidity and Capital Resources" for more information.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Liquidity is a measure of a company's ability to generate sufficient cash flows to meet its short and long-term obligations. Funds generated from operations have been sufficient and we expect them to be sufficient to meet our current and long term liquidity requirements.

The balance of cash and cash equivalents, excluding restricted cash, as of March 31, 2022 was $165.4 million, compared to $250.5 million at December 31, 2021. See "Item 1—Condensed Consolidated Statements of Cash Flows" for a reconciliation of the balance of cash and cash equivalents between March 31, 2022 and December 31, 2021. The decrease in cash and cash equivalents was driven by cash flows used in operating activities, investing and financing activities. Our cash investment strategy at times includes cash investments where the right of offset against other bank accounts does not exist. A book overdraft occurs when aggregating the book balance of all accounts at a financial institution, for accounts which have the right of offset, and if the aggregation results in a net negative book balance, that balance is reclassified from cash and cash equivalents in our Condensed Consolidated Balance Sheet to book overdraft. Cash and cash equivalents balances are available to settle book overdrafts, and to pay reinsurance premiums, expenses and claims. Reinsurance premiums are paid in installments during the reinsurance policy period, which runs from June 1st to May 31st of the following year. The FHCF reimbursement premiums are paid in three installments on August 1st, October 1st, and December 1st, and third-party reinsurance premiums are generally paid in four installments on July 1st, October 1st, January 1st and April 1st, resulting in significant payments at those times. See "Item 1—Note 12 (Commitments and Contingencies)" and additional discussion below under the caption "—Material Cash Requirements" for more information.

The balance of restricted cash and cash equivalents as of March 31, 2022 and December 31, 2021 represents cash equivalents on deposit with certain regulatory agencies in the various states in which our Insurance Entities do business.

Liquidity is required at the holding company for us to cover the payment of holding company general operating expenses and contingencies, dividends to shareholders (if and when authorized and declared by our Board of Directors), payment for the possible repurchase of our common stock (if and when authorized by our Board of Directors), payment of our tax obligations to taxing authorities, settlement of taxes between subsidiaries in accordance with our tax sharing agreement, capital contributions to subsidiaries, if needed, and interest and principal payments on outstanding debt obligations of the holding company. See "Item 1—Note 5 (Insurance Operations)." The declaration and payment of future dividends to our shareholders, and any future repurchases of our common stock, will be at the discretion of our Board of Directors and will depend upon many factors, including our operating results, financial condition, debt covenants and any regulatory constraints. New regulations or changes to existing regulations imposed on the Company and its affiliates may also impact the amount and timing of future dividend payments to the parent. Principal sources of liquidity for the holding company include dividends paid by our service entities generated from income earned on fees paid by the Insurance Entities to affiliated companies for general agency, inspections and claims adjusting services. Dividends are also paid from income earned from brokerage commissions earned on reinsurance contracts placed by our wholly-owned subsidiary, Blue Atlantic Reinsurance Corporation, and policy fees. We also maintain high quality investments in our portfolio as a source of liquidity along with ongoing interest and dividend income from those investments. As discussed in "Item 1—Note 5 (Insurance Operations)," there are limitations on the dividends the Insurance Entities may pay to their immediate parent company, Protection Solutions, Inc. ("PSI", formerly known as Universal Insurance Holding Company of Florida).

The maximum amount of dividends that can be paid by Florida insurance companies without prior approval of the FLOIR is subject to restrictions as referenced below and in "Item 1—Note 5 (Insurance Operations)." Dividends from the Insurance Entities can only be paid from accumulated unassigned funds derived from net operating profits and net realized capital gains. Subject to such accumulated unassigned funds, the maximum dividend that may be paid by the Insurance Entities to PSI without prior approval (an "ordinary dividend") is further limited to the lesser of statutory net income from operations of the preceding calendar year or statutory unassigned surplus as of the preceding year end. During the three months ended March 31, 2022 and the year ended December 31, 2021, the Insurance Entities did not pay dividends to PSI. As of March 31, 2022, the Insurance Entities did not have the capacity to pay ordinary dividends.

On November 23, 2021, we entered into Note Purchase Agreements with certain institutional accredited investors and qualified institutional buyers pursuant to which we issued $100 million of 5.625% Senior Unsecured Notes due 2026. We intend to use the net proceeds to support the Insurance Entities' statutory capital requirements and for general corporate purposes. If necessary, the Company also has amounts available under our unsecured revolving loan as discussed in "Item 1—Note 7 (Long-term debt)."

Liquidity for the Insurance Entities is primarily required to cover payments for reinsurance premiums, claims payments including potential payments of catastrophe losses (offset by recovery of any reimbursement amounts under our reinsurance agreements), fees paid to affiliates for managing general agency services, inspections and claims adjusting services, agent commissions, premium and income taxes, regulatory assessments, general operating expenses, and interest and principal payments on debt obligations. The principal source of liquidity for the Insurance Entities consists of the revenue generated from the collection of premiums earned, net, interest and dividend income from the investment portfolio, the collection of reinsurance recoverable and financing fees.

Our insurance operations provide liquidity as premiums are generally received months or even years before potential losses are paid under the policies written. In the event of catastrophic events, many of our reinsurance agreements provide for "cash advance" whereby reinsurers advance or prepay amounts to us, thereby providing liquidity, which we utilize in the claim settlement process. In addition, the Insurance Entities maintain substantial investments in highly liquid, marketable securities, which would generate funds upon sale. The average credit rating on our available-for-sale securities was A+ as of March 31, 2022 and December 31, 2021. Credit ratings are a measure of collection risk on invested assets. Credit ratings are provided by third party nationally recognized rating agencies and are periodically updated. Management establishes guidelines for minimum credit rating and overall credit rating for all investments. The duration of our available-for-sale securities was 4.5 years at March 31, 2022 compared to 4.4 years at December 31, 2021. Duration is a measure of a bond's sensitivity to interest rate changes and is used by management to limit the potential impact of longer-term investments.

The Insurance Entities are responsible for losses related to catastrophic events in excess of coverage provided by the Insurance Entities' reinsurance programs and retentions before our reinsurance protection commences. Also, the Insurance Entities are responsible for all other losses that otherwise may not be covered by the reinsurance programs and any amounts arising in the event of a reinsurer default. Losses or a default by reinsurers may have a material adverse effect on either of the Insurance Entities, on our business, financial condition, results of operations and liquidity.

Capital Resources

Capital resources provide protection for policyholders, furnish the financial strength to support the business of underwriting insurance risks and facilitate continued business growth. The following table provides our stockholders' equity, total long-term debt, total capital resources, debt-to-total capital ratio and debt-to-equity ratio for the periods presented (dollars in thousands):

	As of	
	March 31, 2022	December 31, 2021
Stockholders' equity	$ 396,341	$ 429,702
Total long-term debt	103,384	103,676
Total capital resources	$ 499,725	$ 533,378
Debt-to-total capital ratio	20.7 %	19.4 %
Debt-to-equity ratio	26.1 %	24.1 %

The debt-to-total capital ratio is total long-term debt divided by total capital resources, whereas the debt-to-equity ratio is total long-term debt divided by stockholders' equity. These ratios help management measure the amount of financing leverage in place in relation to equity and future leverage capacity.

As described in our Annual Report on Form 10-K for the year ended December 31, 2021, UPCIC entered into a surplus note with the State Board of Administration of Florida under Florida's Insurance Capital Build-Up Incentive Program on November 9, 2006. The surplus note has a twenty-year term, with quarterly payments of principal and interest that accrue per the terms of the note agreement. At March 31, 2022, UPCIC was in compliance with the terms of the surplus note. Total adjusted capital and surplus, which includes the surplus note, was in excess of regulatory requirements for both UPCIC and APPCIC.

As discussed in "Item 1—Note 7 (Long-term Debt)," we entered into a credit agreement and related revolving loan with JPMorgan Chase Bank, N.A. in August 2021 which makes available an unsecured revolving credit facility with an aggregate commitment not to exceed $35.0 million. Borrowings under the Revolving Loan mature 364 days after the date of the loan. The Revolving Loan contains customary financial covenants. As of March 31, 2022, the Company was in compliance with all applicable covenants, including financial covenants. We had not drawn any amounts under the Revolving Loan as of March 31, 2022.

In November 2021, we completed a private placement offering through which we issued and sold $100 million of 5.625% Senior Unsecured Notes due 2026 (the "Notes") to certain institutional accredited investors and qualified institutional buyers. The Notes mature on November 26, 2026, at which time the entire $100 million of principal is due and payable. At any time on or after November 23, 2023, the Company may redeem all or part of the Notes. See "Item 1—Note 7 (Long-term debt)" for additional details. As of March 31, 2022, we were in compliance with all applicable covenants, including financial covenants of this note agreement.

We will also continue to evaluate opportunities to access the debt capital markets to raise additional capital. We anticipate any proceeds would be used for general corporate purposes, including investing in the capital and surplus of the Insurance Entities.

In addition to the liquidity generally provided from operations, we maintain a conservative, well-diversified investment portfolio, predominantly comprised of fixed income securities with an average credit rating of A+, that focuses on capital preservation and providing an adequate source of liquidity for potential claim payments and other cash needs. The portfolio's secondary investment objective is to provide a total rate of return with emphasis on investment income. Historically, we have consistently generated funds from operations, allowing our cash and invested assets to grow. We have not had to liquidate investment holdings to fund either operations or financing activities.

Impact of the COVID-19 Pandemic

The impact of the COVID-19 pandemic on the credit markets remains a key risk as the world continues to navigate its consequences and the efforts taken by governments to accelerate and stimulate a financial recovery. We remain in regular contact with our advisors to monitor the credit quality of the issuers of the securities in our portfolio and discuss appropriate responses to credit downgrades or changes in companies' credit outlook. We believe these measures, when combined with the inherent liquidity generated by our business model and in our investment portfolio, will allow us to continue to meet our short- and long-term obligations.

Looking Forward

We continue to monitor a range of financial metrics related to our business. Although we have not yet experienced material adverse impacts on our business or liquidity, conditions are subject to change depending on the extent of the economic downturn and the pace and extent of an economic recovery. Significant uncertainties exist with the potential long-term impact of the COVID-19 pandemic, including unforeseen newly emerging risks that could affect us and future economic changes as the Federal Reserve addresses the emerging economic concerns of inflation, employment and recession. We will continue to monitor the broader economic impacts of the COVID-19 pandemic and its impact on our operations and financial condition including liquidity and capital resources.

Common Stock Repurchases

On November 3, 2020, we announced that our Board of Directors authorized a share repurchase program under which we may repurchase in the open market up to $20 million of outstanding shares of our common stock through November 3, 2022. We may repurchase shares from time to time at our discretion, based on ongoing assessments of our capital needs, the market price of our common stock and general market conditions. We will fund the share repurchase program with cash from operations.

During the three months ended March 31, 2022, we repurchased an aggregate of 320,528 shares of our common stock in the open market at an aggregate purchase price of $3.9 million. Also, see "Part II, Item 2—Unregistered Sales of Equity Securities and Use of Proceeds" for share repurchase activity during the three months ended March 31, 2022.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that are reasonably likely to have a material effect on the financial condition, results of operations, liquidity, or capital resources of the Company, except for multi-year reinsurance contract commitments for future years that will be recorded at the commencement of the coverage period. See "Item 1—Note 12 (Commitments and Contingencies)" for more information.

Cash Dividends

The following table summarizes the dividends declared by the Company in 2022:

2022	Dividend Declared Date	Shareholders Record Date	Dividend Payable Date	Cash Dividend Per Common Share Amount
First Quarter	February 10, 2022	March 10, 2022	March 17, 2022	$ 0.16

MATERIAL CASH REQUIREMENTS

The following table represents our material cash requirements for which cash flows are fixed or determinable as of March 31, 2022 (in thousands):

	Total	Next 12 Months	Beyond 12 Months
Reinsurance payable and multi-year commitments (1)	$ 303,658	$ 92,893	$ 210,765
Unpaid losses and LAE, direct (2)	244,482	137,888	106,594
Long-term debt (3)	134,981	7,188	127,793
Total material cash requirements	$ 683,121	$ 237,969	$ 445,152

(1) Amount represents the payment of reinsurance premiums payable under multi-year commitments. See “Item 1—Note 12 (Commitments and Contingencies).”

(2) There are generally no notional or stated amounts related to unpaid losses and LAE. Both the amounts and timing of future loss and LAE payments are estimates and subject to the inherent variability of legal and market conditions affecting the obligations and make the timing of cash outflows uncertain. The ultimate amount and timing of unpaid losses and LAE could differ materially from the amounts in the table above. Further, the unpaid losses and LAE do not represent all the obligations that will arise under the contracts, but rather only the estimated liability incurred through March 31, 2022. Unpaid losses and LAE are net of estimated subrogation recoveries. In addition, these balances exclude amounts recoverable from the Company’s reinsurance program. See “Item 1—Note 4 (Reinsurance).”

(3) Long-term debt consists of a Surplus note and 5.625% Senior unsecured notes. See “Item 1—Note 7 (Long-term debt).”

Impact of Inflation and Changing Prices

The financial statements and related data presented herein have been prepared in accordance with U.S. GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. Our primary assets are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of the general levels of inflation. Interest rates do not necessarily move in the same direction or with the same magnitude as the cost of paying losses and LAE.

Insurance premiums are established before we know the amount of loss and LAE and the extent to which inflation may affect such expenses. Consequently, we attempt to anticipate the future impact of inflation when establishing rate levels. While we attempt to charge adequate rates, we may be limited in raising premium levels for competitive and regulatory reasons. Inflation also affects the market value of our investment portfolio and the investment rate of return. Any future economic changes which result in prolonged and increasing levels of inflation could cause increases in the dollar amount of incurred loss and LAE and thereby materially adversely affect future liability requirements.

Arrangements with Variable Interest Entities

We entered into a reinsurance captive arrangement with a VIE in the normal course of business, and consolidated the VIE since we are the primary beneficiary.

For a further discussion of our involvement with the VIE, see “Item 1—Note 14 (Variable Interest Entities).”

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no material changes during the period covered by this Quarterly Report on Form 10-Q to Critical Accounting Policies and Estimates previously disclosed in “Part II, Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the year ended December 31, 2021.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the potential for economic losses due to adverse changes in fair market value of available-for-sale debt securities, equity securities (“Financial Instruments”) and investment real estate. We carry all of our Financial Instruments at fair market value and investment real estate at net book value in our statement of financial condition. Our investment portfolio as of March

31, 2022 is comprised of available-for-sale debt securities and equity securities, carried at fair market value, which expose us to changing market conditions, specifically interest rates and equity price changes.

The primary objectives of the investment portfolio are the preservation of capital and providing adequate liquidity for potential claim payments and other cash needs. The portfolio's secondary investment objective is to provide a total rate of return with an emphasis on investment income. None of our investments in risk-sensitive Financial Instruments were entered into for trading purposes.

See "Item 1—Note 3 (Investments)" for more information about our Financial Instruments.

Interest Rate Risk

Interest rate risk is the sensitivity of the fair market value of a fixed rate Financial Instrument to changes in interest rates. Generally, when interest rates rise, the fair value of our fixed rate Financial Instruments declines.

The following tables provide information about our fixed income Financial Instruments as of March 31, 2022 compared to December 31, 2021, which are sensitive to changes in interest rates. The tables present the expected cash flows of Financial Instruments based on years to effective maturity using amortized cost compared to fair market value and the related book yield compared to coupon yield (dollars in thousands):

	March 31, 2022							
	2022	2023	2024	2025	2026	Thereafter	Other	Total
Amortized cost	$ 53,698	$ 108,807	$ 76,740	$ 161,321	$ 157,207	$ 532,773	$ 1,892	$ 1,092,438
Fair market value	$ 53,176	$ 105,853	$ 73,191	$ 150,461	$ 145,919	$ 484,364	$ 1,713	$ 1,014,677
Coupon rate	1.53 %	1.76 %	2.82 %	2.36 %	2.44 %	2.72 %	3.51 %	2.47 %
Book yield	0.58 %	0.76 %	1.03 %	1.17 %	1.43 %	1.84 %	3.52 %	1.46 %
* Years to effective maturity - 5.4 years								

	December 31, 2021							
	2022	2023	2024	2025	2026	Thereafter	Other	Total
Amortized cost	$ 30,183	$ 97,826	$ 99,528	$ 152,982	$ 180,558	$ 499,417	$ 698	$ 1,061,192
Fair market value	$ 30,163	$ 97,433	$ 98,751	$ 150,046	$ 176,711	$ 486,657	$ 694	$ 1,040,455
Coupon rate	1.34 %	1.82 %	2.23 %	2.62 %	2.65 %	2.59 %	3.53 %	2.46 %
Book yield	0.50 %	0.71 %	0.87 %	1.10 %	1.28 %	1.70 %	3.54 %	1.34 %
* Years to effective maturity - 5.4 years								

All securities, except those with perpetual maturities, were categorized in the tables above utilizing years to effective maturity. Effective maturity takes into consideration all forms of potential prepayment, such as call features or prepayment schedules, that shorten the lifespan of contractual maturity dates.

Equity Price Risk

Equity price risk is the potential for loss in fair value of Financial Instruments in common stock and mutual funds and other from adverse changes in the prices of those Financial Instruments.

The following table provides information about the Financial Instruments in our investment portfolio subject to price risk as of the dates presented (in thousands):

	March 31, 2022		December 31, 2021	
	Fair Value	Percent	Fair Value	Percent
Equity Securities:				
Common stock	$ 4,617	7.1 %	$ 3,683	7.8 %
Mutual funds and other	60,509	92.9 %	43,651	92.2 %
Total equity securities	$ 65,126	100.0 %	$ 47,334	100.0 %

A hypothetical decrease of 20% in the market prices of each of the equity securities held at March 31, 2022 and December 31, 2021 would have resulted in a decrease of $13.0 million and $9.5 million, respectively, in the fair value of those securities.

The COVID-19 pandemic presents uncertainty to the financial markets. See further discussion above under “Item 2— Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview—Trends—Impact of the COVID-19 Pandemic” regarding our response to the COVID-19 pandemic, the financial impact to us subsequent to March 2020, our general outlook and plans to monitor the economic consequences of the COVID-19 pandemic.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that disclosure controls and procedures were effective as of March 31, 2022, to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the United States Securities and Exchange Commission’s (“SEC”) rules and forms and that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There was no change in the Company’s internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Lawsuits and other legal proceedings are filed against the Company from time to time. Many of these legal proceedings involve claims under policies that we underwrite and reserve for as an insurer. We are also involved in various other legal proceedings and litigation unrelated to claims under our policies that arise in the ordinary course of business operations. Management believes that any liabilities that may arise as a result of these legal matters will not have a material adverse effect on our financial condition or results of operations. The Company contests liability and/or the amount of damages as appropriate in each pending matter.

In accordance with applicable accounting guidance, the Company establishes an accrued liability for legal matters when those matters present loss contingencies that are both probable and estimable.

Legal proceedings are subject to many uncertain factors that generally cannot be predicted with certainty, and the Company may be exposed to losses in excess of any amounts accrued. The Company currently estimates that the reasonably possible losses for legal proceedings, whether in excess of a related accrued liability or where there is no accrued liability, and for which the Company is able to estimate a possible loss, are immaterial. This represents management’s estimate of possible loss with respect to these matters and is based on currently available information. These estimates of possible loss do not represent our maximum loss exposure, and actual results may vary significantly from current estimates.

Item 1A. Risk Factors

Please refer to the risk factors previously disclosed in “Part I, Item 1A—Risk Factors,” included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021.

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

The table below presents purchases of our common stock during the three months ended March 31, 2022:

	Total Number of Shares Purchased	Average Price Paid per Share (1)	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 (2)
1/1/2022 - 1/31/2022	—	$ —	—	—
2/1/2022 - 2/28/2022	—	$ —	—	—
3/1/2022 - 3/31/2022	320,528	$ 12.07	320,528	1,032,780
Total	320,528	$ 12.07	320,528	1,032,780

(1) Average price paid per share does not reflect brokerage commissions paid to acquire shares in open market transactions.

(2) Number of shares was calculated based on a closing price at March 31, 2022 of $13.49 per share.

We may repurchase shares from time to time at our discretion, based on ongoing assessments of our capital needs, the market price of our common stock and general market conditions. We will fund the share repurchase program with cash from operations.

On November 3, 2020, we announced that our Board of Directors authorized the repurchase of up to $20 million of outstanding shares of our common stock through November 3, 2022 (the “November 2022 Share Repurchase Program”). Under the November 2022 Share Repurchase Program, we repurchased 483,119 shares of our common stock from November 2020 through March 31, 2022 at an aggregate cost of approximately $6.1 million. As of March 31, 2022, we have the ability to purchase up to approximately $13.9 million of our common stock under the November 2022 Share Repurchase Program.

Item 6. Exhibits

Exhibit No.	Exhibit
3.1	Amended and Restated Certificate of Incorporation, as amended (filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K filed on February 24, 2017 and incorporated herein by reference)
3.2	Amended and Restated Bylaws of Universal Insurance Holdings, Inc. (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K filed on June 19, 2017 and incorporated herein by reference)
10.1	Employment Agreement, dated January 25, 2022, between Frank C. Wilcox and the Company (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on January 31, 2022 and incorporated herein by reference) †
10.2	Employment Agreement, dated January 25, 2022, between Kimberly Cooper Campos and the Company (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 31, 2022 and incorporated herein by reference) †
10.3	Amended and Restated Employment Agreement, dated April 7, 2022, between Stephen J. Donaghy and the Company (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 8, 2022 and incorporated herein by reference) †
10.4	Form of Notice of Grant of Non-Qualified Stock Option and Terms and Conditions of Non-Qualified Stock Option under the 2021 Omnibus Incentive Plan †
15.1	Accountants' Acknowledgment
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certifications of Chief Executive Officer and Principal Accounting Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.1	The following materials from Universal Insurance Holdings, Inc. Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2022, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Statement of Stockholders' Equity, (v) the Condensed Consolidated Statements of Cash Flows and (vi) Notes to Condensed Consolidated Financial Statements.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2022, formatted in Inline XBRL (included in Exhibit 101)

† Indicates management contract or compensatory plan or agreement.

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.

	UNIVERSAL INSURANCE HOLDINGS, INC.
Date: May 2, 2022	/s/ Stephen J. Donaghy
	Stephen J. Donaghy, Chief Executive Officer and Principal Executive Officer
Date: May 2, 2022	/s/ Gary Lloyd Ropiecki
	Gary Lloyd Ropiecki, Principal Accounting Officer

Exhibit 10.4

NOTICE OF GRANT OF NON-QUALIFIED STOCK OPTION AWARD PURSUANT TO THE UNIVERSAL INSURANCE HOLDINGS, INC. 2021 OMNIBUS INCENTIVE PLAN

FOR GOOD AND VALUABLE CONSIDERATION, Universal Insurance Holdings, Inc. (the "Company") hereby grants, pursuant to the provisions of the Company's 2021 Omnibus Incentive Plan (as amended from time to time, the "Plan"), to the Optionee designated in this Notice of Grant (the "Notice") an award of a Non-Qualified Stock Option (the "Option") to purchase the number of shares of Common Stock set forth in the Notice (the "Shares"), subject to the restrictions as outlined below in this Notice and the additional provisions set forth in the attached Terms and Conditions of Stock Option Award (the "Terms and Conditions" and, together with this Notice, this "Agreement"). The Optionee further acknowledges receipt of the information statement describing important provisions of the Plan. Specified provisions of the Employment Agreement, dated as of, between the Company and the Optionee (the "Employment Agreement"), that are noted in the Terms and Conditions, shall apply to the vesting and exercisability provisions of this Option.

<table>
<tr><td>Optionee:</td><td>Type of Option: Non-Qualified Stock Option</td></tr>
<tr><td>Exercise Price per Share: $</td><td>Date of Grant:</td></tr>
<tr><td>Total Number of Shares:</td><td>Expiration Date/Time:</td></tr>
<tr><td colspan="2">Vesting Schedule:

Vesting is accelerated in certain circumstances described in more detail in the Terms and Conditions. Vesting in accordance with the schedule above (the "Vesting Schedule") is conditioned upon continued employment through the applicable vesting date.</td></tr>
</table>

By signing below, the Optionee agrees that this Non-Qualified Stock Option Award is granted under and governed by the terms and conditions of the Plan and this Agreement.

OPTIONEE	**UNIVERSAL INSURANCE HOLDINGS, INC.** a Delaware corporation
__ Signature	By:__
__ Print Name	Name: __
__ Address	Its: __

TERMS AND CONDITIONS OF STOCK OPTION AWARD

1. Grant of Option.

The Option granted to the Optionee and described in the Notice of Grant is subject to the terms and conditions of the Plan, which is incorporated by reference in its entirety into these Terms and Conditions of Stock Option Award. As designated in the Notice of Grant, this Option shall be treated as a "non-qualified stock option" for Federal income tax purposes.

The Company intends that this Option shall not contain terms that would cause the Option to be subject to the provisions of Section 409A, and this Agreement shall be administered and construed accordingly. Further, the Company may modify the Plan and this Agreement to the extent necessary to fulfill this intent.

2. Exercise of Option.

(a) Right to Exercise. This Option shall be exercisable, in whole or in part, during its term in accordance with the Vesting Schedule set out in the Notice of Grant and with the applicable provisions of the Plan and this Agreement. No Shares shall be issued pursuant to the exercise of an Option unless the issuance and exercise comply with applicable law. Assuming such compliance, for income tax purposes, the Shares shall be considered transferred to the Optionee on the date on which the Option is exercised with respect to such Shares. The Committee may, in its discretion, (i) accelerate vesting of the Option, or (ii) extend the applicable exercise period to the extent permitted under Section 6.03 of the Plan.

(b) Method of Exercise. The Optionee may exercise the Option by delivering an exercise notice in a form approved by the Company (the "Exercise Notice"), which shall state the election to exercise the Option, the number of Shares with respect to which the Option is being exercised, and such other representations and agreements as may be required by the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price set forth in the Notice (the "Exercise Price") as to all Shares exercised. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by the aggregate Exercise Price.

3. Effect of Termination of Service on Vesting and Exercisability.

(a) Resignation without Good Reason. In the event the Optionee resigns without Good Reason, any then non-vested portion of the Option will expire immediately and any then vested portion shall remain exercisable for 30 days following the Termination Date (but not beyond the Expiration Date).

(b) Termination without Cause; Resignation with Good Reason. Except as provided in Section 4(a) below, in the event that the Optionee's employment is terminated by the Company without Cause or the Optionee resigns with Good Reason, the entire then vested portion of the Option and the non-vested portion of the Option that would have vested had Optionee remained continuously employed for the one-year period following the Termination Date shall be immediately exercisable by the Optionee and shall remain exercisable for one year following the Termination Date (but not beyond the Expiration Date).

(c) Termination due to Death or Disability. If the Optionee's employment with the Company terminates due to death or Disability, any then non-vested portion of the Option will expire immediately and any then vested portion shall remain exercisable for six months following the Termination Date (but not beyond the Expiration Date).

(d) Termination for Cause. If the Optionee's employment is terminated by the Company for Cause, the entire Option, including any then vested and non-vested portion, will expire immediately upon the Termination Date.

(e) Any portion of the Option that has not previously vested or does not vest as of the Termination Date in accordance with this Section 3 or Section 4 below shall be forfeited. In no event may any portion of this Option be exercised after the Expiration Date.

(f) Capitalized words not otherwise defined in this Section 3 or in Section 4 below shall have the same meaning as set forth in the Employment Agreement, regardless of whether the Employment Agreement is then in effect.

4. Change in Control.

(a) Termination without Cause or Resignation with Good Reason within 24 Months Following a Change in Control. Notwithstanding Section 3(b), in the event Optionee's employment is terminated within the 24-month period following a Change in Control as a result of Optionee's termination without Cause or Optionee's resignation with Good Reason, any portion of the Option outstanding on the Termination Date that has not previously vested or terminated under the terms of this Agreement shall be fully vested upon such Termination Date. The vested portion of the Option shall remain exercisable for the one-year period following the Termination Date. In the event that in connection with a Change in Control, a substitute, amended or replacement option shall be granted to Optionee in respect of this Option, then such substitute, amended or replacement option shall contain vesting and exercisability terms that are no less favorable to Optionee than the comparable terms in this Option to which they relate, and the exercise price of any substitute options granted to replace this Option shall be determined in a manner that complies with Treas. Reg. Section 1.409A-1(b)(5)(v)(D) and that preserves the aggregate intrinsic value in the Option immediately prior to the CIC Date.

(b) Certain Changes in Control. Notwithstanding Section 4(a) above, in the event of a Change in Control in which the consideration received by the stockholders of the Company in the Change in Control consists exclusively of cash, securities not listed for trading on a national securities exchange or automated quotation system, or a combination of cash and such unlisted securities, the Option shall become immediately and fully vested on the CIC Date, and Optionee shall be entitled to receive (from either the Company or its successor) in cancellation of the Option a lump sum cash payment equal to the product of the number of Shares underlying the then unexercised portion of the Option multiplied by the fair market value of the consideration per share of Common Stock paid to the Company's stockholders in the merger or consolidation less the aggregate Exercise Price of the then unexercised portion of the Option.

5. Method of Payment.

If the Optionee elects to exercise the Option by submitting an Exercise Notice under Section 2(b) of this Agreement, the aggregate Exercise Price (as well as any applicable withholding or other taxes) shall be paid by Optionee in any of the following forms, or a combination of them:

(a) cash or check in same day funds;

(b) a "net exercise" (as described in Section 6.04(b) of the Plan) or such other consideration received by the Company under a cashless exercise program approved by the Company in connection with the Plan;

(c) surrender of other Shares owned by the Optionee which have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the exercised Shares and any applicable withholding; or

(d) any other consideration that the Committee deems appropriate and in compliance with applicable law.

6. Restrictions and Regulatory Limitations on Exercise. This Option may not be exercised if the issuance of the Shares upon exercise or the method of payment of consideration for those Shares would constitute a violation of any applicable law, regulation or Company policy.

Notwithstanding the other provisions of this Agreement, no option exercise or issuance of Shares pursuant to this Agreement shall be effective if (i) the shares of Common Stock reserved under the Plan are not subject to an effective registration statement at the time of such exercise or issuance, or otherwise eligible for an exemption from registration, or (ii) the Company determines in good faith that such exercise or issuance would violate any applicable securities or other law or regulation.

7. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of the Optionee only by the Optionee; provided, however, that the Optionee may transfer the Options (i) pursuant to a qualified domestic relations order (as defined by the Code or the rules thereunder) or (ii) by gift for no consideration to any member of the Optionee's Immediate Family or to a trust, limited liability company, family limited partnership or other equivalent vehicle, established for the exclusive benefit of one or more members of his Immediate Family by delivering to the Company a Notice of Assignment in a form acceptable to the Company. No transfer or assignment of the Option to or on behalf of an Immediate Family member under this Section 7 shall be effective until the Company has acknowledged such transfer or assignment in writing. "Immediate Family" means the Optionee's parents, spouse, children, siblings, and grandchildren. Following transfer, the Options shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer. In the event an Option is transferred as contemplated in this Section 7, such Option may not be subsequently transferred by the transferee except by will or the laws of descent and distribution. The terms of the Plan and this Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

8. Term of Option. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised prior to the Expiration Date only in accordance with the Plan and the terms of this Agreement.

9. Withholding.

(a) The Committee shall determine the amount of any withholding or other tax required by law to be withheld or paid by the Company with respect to any income recognized by the Optionee with respect to this Option.

(b) The Optionee shall be required to meet any applicable tax withholding obligation in accordance with the provisions of Section 11.06 of the Plan.

(c) The Optionee shall have the right to elect to meet any withholding requirement: (i) by having withheld from this Option at the appropriate time that number of whole shares of Common Stock whose Fair Market Value is equal to the amount of any taxes required to be withheld with respect to this Option, (ii) by direct payment to the Company in cash of the amount of any taxes required to be withheld with respect to this Option or (iii) by a combination of shares of Common Stock and cash.

10. Optionee Representations. The Optionee hereby represents to the Company that the Optionee has read and fully understands the provisions of this Agreement and the Plan and the Optionee's decision to participate in the Plan is completely voluntary. Further, the Optionee acknowledges that the Optionee is relying solely on his or her own advisers with respect to the tax consequences of this Option.

11. Miscellaneous.

(a) Notices. All notices, requests, deliveries, payments, demands and other communications which are required or permitted to be given under this Agreement shall be in writing and shall be either delivered personally or sent by registered or certified mail, or by private courier, return receipt requested, postage prepaid to the parties at their respective addresses set forth herein, or to such other address as either shall have specified by notice in writing to the other. Notice shall be deemed duly given hereunder when delivered or mailed as provided herein.

(b) Waiver. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any other or subsequent breach.

(c) Entire Agreement. This Agreement, the Plan and the Employment Agreement constitute the entire agreement between the parties with respect to the subject matter hereof.

(d) Binding Effect; Successors. This Agreement shall inure to the benefit of and be binding upon the parties hereto and to the extent not prohibited herein, their respective heirs, successors, assigns and representatives. Nothing in this Agreement, express or implied, is intended to confer on any person other than the parties hereto and, as provided above, their respective heirs, successors, assigns and representatives any rights, remedies, obligations or liabilities.

(e) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware applicable to contracts fully executed and performed in such State.

(f) Headings. The headings contained herein are for the sole purpose of convenience of reference, and shall not in any way limit or affect the meaning or interpretation of any of the terms or provisions of this Agreement.

(g) Terms and Construction. Capitalized terms used but not defined in this Agreement shall have the meanings set forth in the Plan, except that capitalized words used in Sections 3 and 4 of this Agreement that are defined in both the Plan and the Employment Agreement shall have the meanings ascribed to them in the Employment Agreement, as if incorporated directly into this Agreement (and not the meanings set forth in the Plan to the extent inconsistent with the Employment Agreement). In the event of any conflict between the provisions of this Agreement and the Plan, the provisions of the Plan shall control. In the event of any conflict between the provisions of the Plan or this Agreement and the provisions of the Employment Agreement relating to the vesting and exercisability of the Option, such provisions of the Employment Agreement shall control as if incorporated directly into this Agreement.

(h) Amendment. This Agreement may be amended at any time by written agreement of the parties hereto.

(i) No Right to Continued Employment. Nothing in this Agreement shall confer upon the Optionee any right to continue in the employ or service of the Company or affect the right of the Company to terminate the Optionee's employment or service at any time.

(j) Further Assurances. The Optionee agrees, upon demand of the Company or the Committee, to do all acts and execute, deliver and perform all additional documents, instruments and agreements which may be reasonably required by the Company or the Committee, as the case may be, to implement the provisions and purposes of this Agreement and the Plan.

EXHIBIT 15.1

ACCOUNTANT'S ACKNOWLEDGMENT

We hereby acknowledge our awareness of the use of our report dated May 02, 2022, included within the Quarterly Report on Form 10-Q of Universal Insurance Holdings, Inc. for the quarter ended March 31, 2022, in Registration Statement number 333-185484 on Form S-3 and Registration Statement numbers 333-163564, 333-174125, 333-181994, 333-189122, 333-203866, 333-215750, 333-238314, and 333-257896 on Form S-8.

Pursuant to Rule 436 under the Securities Act of 1933 (the “Act”), such report is not considered a part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/ Plante & Moran, PLLC

East Lansing, Michigan
May 2, 2022

EXHIBIT 31.1

CERTIFICATION PURSUANT TO RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stephen J. Donaghy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2022 of Universal Insurance Holdings, Inc. (the “Registrant”);

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 we 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 the 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 2, 2022

/s/ Stephen J. Donaghy

Stephen J. Donaghy
Chief Executive Officer and Principal Executive Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gary Lloyd Ropiecki, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2022 of Universal Insurance Holdings, Inc. (the "Registrant");

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 we 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 the 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 2, 2022

/s/ Gary Lloyd Ropiecki

Gary Lloyd Ropiecki
Principal Accounting Officer

EXHIBIT 32

CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Universal Insurance Holdings, Inc. (“Company”) on Form 10-Q for the fiscal quarter ended March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (“Report”), the undersigned, in the capacity and on the date indicated below, each hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his 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 operation of the Company.

Date: May 2, 2022	By:	/s/ Stephen J. Donaghy
	Name:	Stephen J. Donaghy
	Title:	Chief Executive Officer and Principal Executive Officer
Date: May 2, 2022	By:	/s/ Gary Lloyd Ropiecki
	Name:	Gary Lloyd Ropiecki
	Title:	Principal Accounting Officer