POSITIVE PHYSICIANS HOLDINGS, INC.

A Pennsylvania Company
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850 Cassatt Road, Berwyn, PA 19312

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www.positivephysicians.com

Federal EIN: 83-0824448
SIC Code: 6331

QUARTERLY REPORT

For the Period Ending March 31, 2022 (the "Reporting Period")

The number of shares outstanding of our common stock is 3,615,500 as of March 31, 2022 (the end of reporting period).

The number of shares outstanding of our common stock is 3,615,500 as of December 31, 2021 (the end of previous reporting period).

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: ☐ No: ☒

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: ☐ No: ☒

Indicate by check mark Indicate by check mark whether a change in control of the company has occurred over this reporting period:

Yes: ☐ No: ☒

POSITIVE PHYSICIANS HOLDINGS, INC.

TABLE OF CONTENTS

Statement on Forward-Looking Information

This report may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995 with respect to the Company's business, financial condition and results of operations and the plans and objectives of its management. Forward-looking statements can generally be identified by use of forward-looking terminology such as "may," "will," "plan," "expect," "intend," "anticipate," and "believe." These forward-looking statements may include estimates, assumptions or projections and are based on currently available financial, industry, competitive and economic data, and our current operating plans. All forward-looking statements are subject to risks and uncertainties, including risks regarding the effects and duration of the COVID-19 pandemic, that could cause actual results to differ materially from those expressed or implied by the forward-looking statements.

The effect of the COVID-19 pandemic on our operations could have a material adverse effect on our business, financial condition, results of operations, or cash flows. The World Health Organization declared the outbreak of COVID-19, which began in December 2019, a pandemic and the U.S. federal government declared it a national emergency. Our business and operations could be materially and adversely affected by the effects of COVID-19. The global spread of COVID-19 created significant volatility, uncertainty, and economic disruption in the markets in which we operate. Governments, public institutions, and other organizations in countries and localities where cases of COVID-19 were detected have taken certain emergency measures to mitigate its spread, including implementing travel restrictions and closing factories, schools, public buildings, and businesses. While the full impact of this outbreak is not yet known, we have closely monitored the spread of COVID-19 and continue to assess its potential effects on our business.

As a result of restrictions put in place to address COVID-19 and the related economic downturn, the Company experienced business disruptions including, but not limited to, office closures and difficulties in maintaining operational continuance during remote operations required by illness, social quarantining, and work from home orders that were in force. The extent to which our results continue to be affected by COVID-19 will largely depend on future developments which cannot be accurately predicted, including the duration and scope of the pandemic, governmental and business responses to the pandemic and the impact on the global economy. While these factors are uncertain, the COVID-19 pandemic or the perception of its effects could continue to have a material adverse effect on our business, financial condition, results of operations, or cash flows

Other factors that could cause actual results to differ materially from those in the forward-looking statements, include, but are not limited to:

- the potential impact of fraud, operational errors, system malfunctions, or cybersecurity incidents;
- financial market conditions, including, but not limited to, changes in interest rates and the stock markets causing a reduction of investment income or investment gains and reduction in the value of our investment portfolio;
- future economic conditions in the market in which we compete that are less favorable than expected;
- the effect of legislative, judicial, economic, demographic, and regulatory events in the jurisdictions where we do business;
- our ability to successfully implement steps to optimize the business portfolio, ensure capital efficiency, and enhance investment returns;
- the risks associated with the management of capital on behalf of investors;
- our ability to enter new markets successfully and capitalize on growth opportunities either through acquisitions or the expansion of our producer network;
- the success with which our brokers sell our products and our ability to collect payments from our insureds;
- heightened competition, including specifically the intensification of price competition, the entry of new competitors and the development of new products by new or existing competitors, resulting in a reduction in the demand for our products;
- our concentration in medical professional liability insurance, which makes us particularly susceptible to adverse changes in that industry segment;
- changes in general economic conditions, including inflation, unemployment, interest rates and other factors;
- estimates and adequacy of loss reserves and trends in loss and loss adjustment expenses;
- changes in the coverage terms required by state laws, including higher limits;
- our inability to obtain regulatory approval of, or to implement, premium rate increases;
- inadequacy of premiums we charge to compensate us for our losses incurred;
- the effectiveness of our risk management loss limitation methods;

- our ability to obtain reinsurance coverage at reasonable prices or on terms that adequately protect us and to collect amounts that we believe we are entitled to under such reinsurance;
- our ability to attract and retain qualified management personnel;
- the potential impact on our reported net income (loss) that could result from the adoption of future accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies;
- unanticipated changes in industry trends and ratings assigned by nationally recognized rating organizations;
- statutory requirements that limit our ability to receive dividends from our insurance subsidiary;
- the impact of future results on the recoverability of our deferred tax asset;
- adverse litigation or arbitration results; and
- adverse changes in applicable laws, regulations or rules governing insurance holding companies and insurance companies, including tax or accounting matters, limitations on premium levels, increases in minimum capital and reserves, other financial viability requirements, and changes that affect the cost of, or demand for, our products.

Because forward-looking information is subject to various risks and uncertainties, actual results may differ materially from that expressed or implied by the forward-looking information. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected or projected. These forward-looking statements speak only as of the date of the report. The Company expressly disclaims any obligation to publicly release any updates or revisions to reflect any change in the Company’s expectations with regard to any change in events, conditions or circumstances on which any such statement is based.

Item 1. The Exact Name of The Issuer and Address and Telephone Number of Issuer's Principal Office

Company Description

Positive Physicians Holdings, Inc. (OTCQX: PPHI) is a Pennsylvania domiciled holding company, which was incorporated on May 1, 2018 for the purpose of acquiring three Pennsylvania based reciprocal insurance exchanges: Positive Physicians Insurance Exchange ("PPIX"), Professional Casualty Association ("PCA"), and Physicians' Insurance Program Exchange ("PIPE"). In connection with the completion of PPHI's initial public offering, PPIX, PCA, and PIPE converted from reciprocal insurance exchanges into stock insurance companies and were merged together to form Positive Physicians Insurance Company ("Positive Insurance Company"), a wholly owned subsidiary of the Company. PPHI's initial public offering and its acquisition of Positive Insurance Company were completed on March 27, 2019. Prior to that time, PPHI had minimal assets and liabilities and had not engaged in any operations. The Company's standing in Pennsylvania is currently active.

On September 7, 2021, through a newly formed wholly owned subsidiary of PPHI, Positive Professionals Management LLC ("PPM"), the Company entered into an asset purchase agreement with Diversus, Inc. and its wholly owned subsidiary, Diversus Management, LLC ("Diversus Management") (collectively, "Diversus"). Prior to the acquisition, Diversus had managed and administered essentially all of the operations of Positive Insurance Company under the terms of a management agreement. The acquisition includes the working capital of Diversus at closing, the transfer and/or assignment of employment agreements and contracts with key third party vendors, including the lease of our home office, and full membership assignments of Gateway Risk Services, LLC ("Gateway") and Specialty Insurance Agency LLC ("SIA"). Prior to the acquisition, Gateway and SIA provided claims processing and risk management services and insurance policy brokerage services, respectively, to Positive Insurance Company and third-party customers.

Positive Insurance Company underwrites medical professional liability coverage for physicians, their corporations, medical groups, clinics and allied healthcare providers. Medical professional liability insurance protects physicians and other health care providers against liabilities arising from the rendering of, or failure to render, professional medical services. We offer claims-made coverage, claims-made plus, and occurrence-based policies as well as tail coverage in Pennsylvania, New Jersey, Ohio, Delaware, Maryland, South Carolina, Michigan, Florida, Texas, and Georgia. Our policies include coverage for the cost of defending claims. Claims-made policies provide coverage to the policyholder for claims reported during the period of coverage. We offer extended reporting endorsements, or tails, to cover claims reported after the policy expires. Occurrence-based policies provide coverage to the policyholders for all losses incurred during the policy coverage year regardless of when the claims are reported.

Issuer's Exact Name:	Positive Physicians Holdings, Inc.
Issuer's Address:	100 Berwyn Park, Suite 220 850 Cassatt Road, Berwyn, PA 19312
Issuer's Telephone:	Telephone: 888-335-5335 Fax: 610-644-5265
Issuer's Website:	www.positivephysicians.com
Investor Relations:	Mark J. Keyser Interim Chief Financial Officer Positive Physicians Holdings, Inc. 100 Berwyn Park, Suite 220 850 Cassatt Road, Berwyn, PA 19312 Telephone: 888-335-5335 Email: mkeyser@charterlane.com

Item 2. Shares Outstanding

	March 31, 2022
Number of shares authorized	10,000,000
Number of shares outstanding [(1)]	3,688,617
Freely tradable shares (public float)	311,567
Total number of shareholders on record	~ 100

(1) Shares outstanding include vested stock options of 73,117 that were exercisable as of March 31, 2022, as additional shares would need to be issued by the Company, if exercised.

As of March 31, 2022, we have more than 50 beneficial shareholders each owning at least 100 shares of our common stock.

Beneficial owners owning 5% or more of the outstanding shares of our common stock as of March 31, 2022 were as follows:

	Number of Shares Beneficially Owned	Percent of Outstanding Common Stock
Insurance Capital Group, LLC 767 Fifth Avenue, 16th Floor, New York, New York 10153	2,277,753	63.0%
Enstar Holdings (US) LLC 150 2nd Avenue N 3rd Floor, St. Petersburg, Florida 33701	976,180	27.0%

Item 3. Interim Consolidated Financial Statements

The interim consolidated financial statements of Positive Physicians Holdings, Inc. as of and for the periods ended March 31, 2022 and 2021 are attached hereto as Exhibit 1.1 and are hereby incorporated by reference into this Quarterly Report, including:

- Consolidated Balance Sheets
- Consolidated Statements of Operations
- Consolidated Statements of Comprehensive Loss
- Consolidated Statements of Stockholders' Equity
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements

The interim consolidated financial statements and the accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The interim consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results. As permitted under GAAP, certain footnotes or other financial disclosures are condensed or omitted in the interim consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report for the year ended December 31, 2021.

The interim consolidated financial statements and the accompanying notes for the three months ended March 31, 2022 and 2021 are unaudited. Operating results for the interim period are not necessarily indicative of the results that may be expected or achieved for the year ending December 31, 2022.

Item 4. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to provide a more comprehensive review of Positive Physicians Holdings, Inc. ("PPHI") and its wholly owned subsidiaries (collectively referred to as the "Company," which also may be referred to as "we" or "us") operating results and financial condition than can be obtained from reading the Financial Statements alone. The discussion should be read in conjunction with the Unaudited Consolidated Financial Statements and the notes thereto included as "Exhibit 1.1 Interim Consolidated Financial Statements" of the Company. We also recommend you read Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report for the year ended December 31, 2021 ("2021 Annual Report").

OVERVIEW

Positive Physicians Holdings, Inc. is a Pennsylvania domiciled holding company, which was incorporated on May 1, 2018 for the purpose of acquiring three Pennsylvania based reciprocal insurance exchanges: Positive Physicians Insurance Exchange ("PPIX"), Professional Casualty Association ("PCA"), and Physicians' Insurance Program Exchange ("PIPE"). In connection with the completion of PPHI's initial public offering, PPIX, PCA, and PIPE converted from reciprocal insurance exchanges into stock insurance companies.

As part of the conversions, on March 27, 2019, PPIX merged with and into PPIX Conversion Corp., PCA merged with and into PCA Conversion Corp., and PIPE merged with and into PIPE Conversion Corp. Accordingly, PPIX, PCA, and PIPE no longer exist. Immediately thereafter, PCA Conversion Corp. and PIPE Conversion Corp. merged with and into PPIX Conversion Corp., which then changed its name to Positive Physicians Insurance Company ("Positive Insurance Company") and became our single insurance company subsidiary and successor to PPIX, PCA, and PIPE. PPHI had minimal assets and liabilities and had not engaged in any operations prior to March 27, 2019.

On September 7, 2021, through a newly formed wholly owned subsidiary of PPHI, Positive Professionals Management LLC ("PPM"), the Company entered into an asset purchase agreement with Diversus, Inc. and its wholly owned subsidiary, Diversus Management, LLC ("Diversus Management") (collectively, "Diversus"). Prior to the acquisition, Diversus had managed and administered essentially all of the operations of Positive Insurance Company under the terms of a management agreement. The acquisition includes the working capital of Diversus at closing, the transfer and/or assignment of employment agreements and contracts with key third party vendors, including the lease of our home office, and full membership assignments of Gateway Risk Services, LLC ("Gateway") and Specialty Insurance Agency LLC ("SIA"). Prior to the acquisition, Gateway and SIA provided claims processing and risk management services and insurance policy brokerage services, respectively, to Positive Insurance Company and third-party customers. Hereinafter, Diversus, Gateway, and SIA are collectively referred to as the "Diversus Companies."

Positive Insurance Company underwrites medical professional liability coverage for physicians, their corporations, medical groups, clinics, and allied healthcare providers. Medical professional liability insurance ("MPLI") protects physicians and other health care providers against liabilities arising from the rendering of, or failure to render, professional medical services. We offer claims-made coverage, claims-made plus, and occurrence-based policies as well as tail coverage in Pennsylvania, New Jersey, Ohio, Delaware, Maryland, South Carolina, Michigan, Florida, Texas, and Georgia. Our policies include coverage for the cost of defending claims. Claims-made policies provide coverage to the policyholder for claims reported during the period of coverage. We offer extended reporting endorsements, or tails, to cover claims reported after the policy expires. Occurrence-based policies provide coverage to the policyholders for all losses incurred during the policy coverage year regardless of when the claims are reported. Although we generate a majority of our premiums from individual and small group practices, we also insure several major physician groups.

Marketplace Conditions and Trends

The MPLI industry is affected by recurring industry cycles known as "hard" and "soft" markets. A soft market is characterized by intense competition, resulting in lower pricing in order to compete for business. A hard market, generally considered a beneficial industry trend, is characterized by reduced competition that results in higher pricing. From approximately 2001 until approximately 2007, the Pennsylvania MPLI market experienced a hard market cycle. This resulted in the creation of several alternative MPLI providers, such as PPIX, PCA, and PIPE.

The MPLI market began to experience a soft market cycle around the second quarter of 2008, due primarily to the large rate increases taken over the previous six years. The soft market continued and was facilitated by the restructuring of the healthcare industry, partially as a result of the Affordable Care Act. This resulted in significant price competition, as the number of medical professionals practicing independent of hospitals or large professional groups began to decline. According to a study prepared by the

National Association of Insurance Commissioners, MPLI direct premiums written declined by 17.5% on a national basis from 2006 to 2020 and declined by 1.9% in Pennsylvania and 26.9% in New Jersey during this same time period. This resulted in lower direct premiums written and lower operating profits for many MPLI carriers.

The soft market cycle troughed in 2012, and since then, national loss payouts, on average, have steadily increased through 2019. As a result, underwriting criteria in the MPLI industry has started to become more stringent, with opportunities for improved pricing, and we believe the market cycle has transitioned to a hard market. At Positive Insurance Company, our renewal book of business has been experiencing price increases through reduced credits, a development which we expect to continue and extend through our policy renewals in 2022. We are also seeing rate increases take place by other carriers in many of the states in which we write business.

In addition to pricing increases, we intend to achieve further premium growth with our expansion into new states. Positive Insurance Company recently expanded into Texas, Georgia, and Florida, in which we wrote a nominal amount of business during the first quarter of 2022.

Principal Revenue and Expense Items

Positive Insurance Company derives its revenue primarily from net premiums earned, net investment income, and net realized and unrealized gains (losses) from investments. Expenses for Positive Insurance Company include losses and loss adjustment expenses, other underwriting expenses, and income taxes. Refer to Principal Revenue and Expense Items under Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2021 Annual Report for additional information.

Key Financial Measures

We evaluate our insurance operations by monitoring certain key measures of growth and profitability. Some of these measurements are "non-GAAP" financial measurements under Securities and Exchange Commission rules and regulations. We utilize certain non-GAAP financial performance measures that are widely used in the property and casualty insurance industry and that we believe are valuable in managing our business and for comparison to our peers. These financial performance measures are the loss and LAE ratio, expense ratio, combined ratio, underwriting income (loss), and operating income (loss).

We measure growth by monitoring changes in gross premiums written and net premiums written, and measure underwriting profitability by examining losses and LAE, underwriting expenses, and combined ratios. We also measure profitability by examining underwriting income (loss) and operating income (loss).

Refer to Key Financial Measures under Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2021 Annual Report for additional information.

RESULTS OF OPERATIONS

Our results of operations are influenced by factors affecting the MPLI industry, in general. The operating results of the United States MPLI industry are subject to significant variations due to competition, changes in regulation, rising medical expenses, judicial trends, fluctuations in interest rates, and other changes in the investment environment.

Our premium levels and underwriting results have been, and continue to be, influenced by market conditions. Pricing in the MPLI industry historically has been cyclical. During a soft market cycle, price competition is more significant than during a hard market cycle which makes it difficult to attract and retain properly priced MPLI business. As previously discussed, the markets in which we operate, and the national MPLI markets, were in a prolonged period of a soft market cycle. However, we did start to see price increases with our policy renewals toward the latter part of 2020 and we believe the market is hardening. Therefore, it is generally likely that insurers will be able to increase their rates or profit margins, as market conditions continue to improve. A hard market typically has a positive effect on premium growth, which can include absolute increases in premiums written.

We reported a net income of $168,195 in the first quarter of 2022, compared to net loss of $158,161 in the first quarter of 2021. The increase for the quarter was primarily driven by reduced amortization expense related to the prepaid management fee which settled in September 2021.

For the first quarter of 2022, we had an operating income of $114,443, compared to an operating loss of $174,709 in prior year. The increase in operating results was driven by the same factor noted above.

Total revenues were $5,668,158 in the first quarter of 2022, compared to $5,837,754 for the same period in the prior year. For the quarter, lower net investment income and lower net premiums earned partially offset by the greater unrealized gains on equity securities, and revenue earned by Gateway and SIA.

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Revenues:		
Net premiums earned	$ 4,752,488	$ 5,233,034
Net investment income	563,180	583,773
Realized investment gains, net	68,040	20,947
Other income	284,450	—
Total revenues	5,668,158	5,837,754
Expenses:		
Losses and loss adjustment expenses	3,326,741	3,663,124
Other underwriting expenses	2,127,325	2,390,040
Interest expense	12,990	—
Total expenses	5,467,056	6,053,164
Income (loss) before income taxes	201,102	(215,410)
Income tax expense (benefit)	32,907	(57,249)
Net income (loss)	$ 168,195	$ (158,161)
Underwriting income (loss) (1)	$ 133,062	$ (269,535)
Operating income (loss)	$ 114,443	$ (174,709)

(1) Underwriting income (loss) excludes holding company and captive expenses of $210,346 and $550,593 for the three months March 31, 2022 and 2021, respectively.

Premiums Written and Premiums Earned

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021	% Change
Premiums written:			
Direct	$ 6,453,089	$ 7,148,813	-9.7%
Ceded	3,467,519	225,021	NM
Premiums written, net of reinsurance	$ 2,985,570	$ 6,923,792	-56.9%
Premiums earned:			
Direct	$ 6,109,795	$ 6,449,905	-5.3%
Ceded	1,357,307	1,216,871	11.5%
Premiums earned, net of reinsurance	$ 4,752,488	$ 5,233,034	-9.2%

NM – not meaningful

The decrease in direct premiums written during the first quarter, compared to the same period last year, primarily reflect new business written and earned in the first quarter last year which did not renew in the current period. Ceded premiums written, which are determined based on a percentage of direct premiums earned, increased due to the seasonality of renewing our reinsurance agreement. The reinsurance agreement was renewed in the second quarter of 2021 compared to the first quarter of 2022.

Net Investment Income

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Average cash and invested assets	$ 118,995,728	$ 124,893,354
Net investment income	563,180	583,773
Annualized return on average cash and invested assets	1.87%	1.87%

Net investment income was $563,180 for the first three months of 2022, compared to $583,773 for the first three months of 2021. The average monthly net investment income decreased from $195,000 during the first three months last year to $188,000 in the first three months this year. The decrease in net investment income reflects lower investment yields in 2022, resulting from turnover of securities within the investment portfolio.

Realized Investment Gains, Net

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Total gain (loss) on sales of investments	$ (5,122)	$ 1,872
Unrealized gain on equity securities	73,162	19,075
Total net realized investment gains	$ 68,040	$ 20,947

The unrealized gain on equity securities during the first three months of 2022 was primarily attributable to market volatility associated with the economic conditions. Our fixed maturity investments are available-for-sale because we may, from time to time, make sales of securities that are not impaired, consistent with our investment goals and policies.

Losses and Loss Adjustment Expenses

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Loss and LAE ratio	70.0%	70.0%
Expense ratio (1)	37.8%	35.1%
Combined ratio	107.8%	105.1%

(1) Expense ratio excludes holding company and captive expenses of $210,346 and $550,593 for the three months March 31, 2022 and 2021, respectively.

The increase in the expense ratio for the first quarter of 2022, primarily reflects lower net premiums earned. Expenses were relatively flat compared to the first quarter of 2021.

The MPLI line of business is prone to variability in the loss reserving process due to the extended period of time during which claims can be made and the subsequent time required to settle those claims. Adjustments to our original estimates resulting from claims are not made until the period in which there is reasonable evidence that an adjustment to the reserve is appropriate.

Other Underwriting Expenses

Other underwriting expenses, including changes in deferred acquisition costs, were $2,127,325 for the first quarter of 2022, compared to $2,390,040 for the first quarter of 2021. Other underwriting expenses decreased in the first quarter of current year driven by lower amortization expense primarily related to the settlement of the prepaid management fee in September 2021.

Income Tax Expense (Benefit)

The provision for income taxes for the first quarter of 2022 resulted in income tax expense of $32,907, compared to income tax benefit of $57,249 for the first quarter of 2021. The Company's effective tax rate for both years was 21%.

Loss Reserves

The following tables provide case and incurred-but-not-reported ("IBNR") reserves of Positive Insurance Company's losses and loss adjustment expenses as of March 31, 2022 and December 31, 2021.

As of March 31, 2022

	Case Reserves	IBNR Reserves	Total Reserves
Medical professional liability	$35,030,388	$22,365,492	$57,395,880
Total net reserves	35,030,388	22,365,492	57,395,880
Reinsurance recoverable on unpaid claims	9,356,864	1,123,742	10,480,606
Gross reserves	$44,387,252	$23,489,234	$67,876,486

As of December 31, 2021

	Case Reserves	IBNR Reserves	Total Reserves
Medical professional liability	$36,136,848	$22,282,652	$58,419,500
Total net reserves	36,136,848	22,282,652	58,419,500
Reinsurance recoverable on unpaid claims	8,779,075	2,319,738	11,098,813
Gross reserves	$44,915,923	$24,602,390	$69,518,313

The estimation of Positive Insurance Company's reserves is based on several actuarial methods, each of which incorporates many quantitative assumptions. The judgment of the independent actuary plays an important role in selecting among various loss development factors and selecting the appropriate method, or combination of methods, to use for a given policy year.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is a measure of an entity's ability to secure sufficient cash to meet its contractual obligations and operating needs. Our insurance operations generate cash by writing policies and collecting premiums. The cash generated is used to pay losses and LAE as well as other underwriting expenses. Any excess cash is invested and earns investment income.

We maintain investment and reinsurance programs that are intended to provide sufficient funds to meet our obligations without forced sales of investments. As such, our investment portfolio contains a high degree of liquidity, with relatively short-term and highly liquid assets, to ensure the availability of funds and to meet the demands of claim settlements and operating expenses. We also have an Investment Committee which meets regularly to discuss cash flow projections and our short-term cash needs as well as asset allocation within our investment portfolio.

Furthermore, liquidity requirements are met primarily through operating cash flows and by maintaining a portfolio with maturities that reflect our estimates of future cash flow requirements. Our investment strategy includes setting guidelines for asset quality standards, allocating assets among investment types and issuers, and other relevant criteria for our portfolio. In addition, invested asset cash flows, which include both current interest income received and investment maturities, are structured to consider projected liability cash flows of loss reserve payouts that are based on actuarial models. Property and casualty claim demands are somewhat unpredictable in nature and require liquidity from the underlying invested assets. Our invested assets are structured to emphasize current investment income while maintaining appropriate portfolio quality and diversity.

	Three Months Ended March 31,	
	2022	2021
Cash flows provided by operating activities	$ 1,782,464	$ 1,425,660
Cash flows provided by investing activities	607,919	243,652
Cash flows provided by financing activities	—	—
Net increase in cash and cash equivalents and restricted cash	$ 2,390,383	$ 1,669,312

Cash flows from operating activities improved during the first three months of 2022, compared to the first three months of 2021, primarily due to timing of loss and expense payments between years and increased collections of premiums in the current year.

Cash flows from investing activities increased during the first three months of 2022, compared to the first three months of 2021, reflecting the sales of fixed maturity securities in the current year.

At the PPHI holding company level, our primary sources of liquidity are dividends and tax payments received from Positive Insurance Company and capital raising activities. We utilize cash to pay debt obligations, taxes to the federal government, and corporate expenses. At March 31, 2022, we had $12,027,944 of cash and short-term investments at our holding company which we believe, combined with our other capital sources, will continue to provide us with sufficient funds to meet our foreseeable ongoing expenses and other obligations.

Our insurance subsidiary, Positive Insurance Company, is restricted by the insurance laws and regulations of the Commonwealth of Pennsylvania as to the amount of dividends or other distributions it may pay to the holding company. In considering future dividend policy, Positive Insurance Company will consider, among other things, applicable regulatory constraints. At March 31, 2022, Positive Insurance Company had statutory surplus of $38,397,698.

An order by the Pennsylvania Insurance Department approving the conversions of PPIX, PCA, and PIPE prohibits the declaration or payment of any dividend, return of capital, or other distribution by PPHI to Insurance Capital Group, LLC and Enstar Holdings (US) LLC, the two principal stockholders of PPHI, or any other shareholder without the prior approval of the Pennsylvania Insurance Department, for a period of three years following the effective date of the conversions. Additionally, by the order of the Pennsylvania Insurance Department, Positive Insurance Company cannot pay a dividend to PPHI for a period of three years following the effective date of the conversions without the approval of the Pennsylvania Insurance Department. The three-year period terminated on March 27, 2022.

Prior to its payment of any dividend, Positive Insurance Company will be required to provide notice of the dividend to the Pennsylvania Insurance Department. This notice must be provided to the Pennsylvania Insurance Department 30 days prior to the payment of an extraordinary dividend and 10 days prior to the payment of an ordinary dividend. The Pennsylvania Insurance Department has the power to limit or prohibit dividends if Positive Insurance Company is in violation of any law or regulation. These restrictions or any subsequently imposed restrictions may affect our future liquidity.

Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, results of operations, liquidity, capital expenditures, or capital reserves.

INVESTMENTS

Our investment portfolio is invested primarily in publicly traded, investment grade, fixed maturity securities with an average credit quality of A as rated by nationally recognized credit rating agencies. The portfolio is externally managed by independent, professional investment managers and is broadly diversified across sectors and issuers. Exposures are aggregated, monitored, and actively managed by our Investment Committee. We also have an investment policy statement which requires managers to maintain highly diversified exposures to individual issuers and closely monitor compliance with portfolio guidelines.

We have structured our investment portfolio to provide an appropriate matching of maturities with anticipated claims payments. The fair values of these investments are subject to fluctuation in interest rates. If we decide or are required in the future to sell securities in a rising interest rate environment, then we would expect to incur losses from such sales. As of March 31, 2022, the average duration of our fixed maturity security investments that support the insurance reserves was approximately 2.91 years, while the duration of our insurance reserves was slightly lower, reflecting our decision to maintain longer asset duration in order to enhance overall yield, while maintaining a high overall credit quality. We estimate that a 100 basis points (bps) increase in interest rates would reduce the valuation of our fixed maturity portfolio by $3,530,434 at March 31, 2022.

	March 31, 2022		December 31, 2021	
	Fair Value	Amortized Cost/Cost	Fair Value	Amortized Cost/Cost
U.S. government	$ 5,600,361	$ 5.689,375	$ 5,778,055	$ 5,728,192
States, territories, and possessions	862,745	860,677	876,296	864,670
Subdivisions of states, territories, and possessions	8,521,502	8,456,357	9,793,857	9,542,554
Industrial and miscellaneous	83,948,680	86,586,711	87,580,737	86,323,037
Total fixed maturity securities	98,933,288	101,593,120	104,028,945	102,458,453
Equity securities	474,536	788,754	240,876	628,256
	$ 99,407,824	$102,381,874	$104,269,821	$103,086,709

The fair value of our investment portfolio decreased during the first quarter of 2022, primarily due to unrealized depreciation in our fixed maturity securities, mainly corporate bonds, which resulted from rising interest rates. The total net unrealized loss on our investment portfolio at March 31, 2022 was $2,974,050, or 2.9% of the amortized cost or cost basis, compared to an overall net unrealized gain of $1,183,112 at December 31, 2021.

	March 31, 2022	December 31, 2021	YTD Change
Fixed maturity securities:			
Unrealized gains	$ 273,892	$ 2,192,899	$(1,919,007)
Unrealized losses	(2,933,724)	(622,407)	(2,311,317)
Net fixed maturity securities unrealized gains	(2,659,832)	1,570,492	(4,230,324)
Equity securities:			
Unrealized gains	47,447	13,145	34,302
Unrealized losses	(361,665)	(400,525)	38,860
Net equity securities unrealized losses	(314,218)	(387,380)	73,162
Net unrealized gain (loss)	$(2,974,050)	$ 1,183,112	$(4,157,160)

For our fixed maturity securities that were temporarily impaired at March 31, 2022 and December 31, 2021, the length of time that such securities were in an unrealized loss position, as measured by their month-end fair value, are as follows:

	Less than 12 months		12 months or longer		Total	
Description of securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2022:						
U.S. government	$ 3,252,439	$ 88,229	$ 931,897	$ 18,104	$ 4,184,336	$ 106,333
States, territories, and possessions	—	—	—	—	—	—
Subdivisions of states, territories, and possessions	504,795	2,615	71,444	3,777	576,239	6,392
Industrial and miscellaneous	44,357,918	1,949,767	8,282,848	871,232	52,640,766	2,820,999
Total fixed maturity securities	$ 48,115,152	$2,040,611	$9,286,189	$ 893,113	$57,401,341	$2,933,724

	Less than 12 months		12 months or longer		Total	
Description of securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2021:						
U.S. government	$ 2,955,456	$ 15,765	$ 197,744	$ 2,256	$ 3,153,200	$ 18,021
States, territories, and possessions	—	—	—	—	—	—
Subdivisions of states, territories, and possessions	—	—	72,664	2,573	72,664	2,573
Industrial and miscellaneous	30,585,850	574,110	550,192	27,703	31,136,042	601,813
Total fixed maturity securities	$33,541,306	$ 589,875	$ 820,600	$ 32,532	$34,361,906	$ 622,407

At March 31, 2022, we had gross unrealized losses on fixed maturity securities of $2,933,724, compared to gross unrealized losses on fixed maturity securities of $622,407 at December 31, 2021. The increase in gross unrealized losses during the first three months of 2022 was attributable to increases in interest rates, mainly associated with our holdings in certain corporate bonds. We have not observed any evidence which would lead us to believe that the entire amortized cost basis will not be recovered.

OTHER MATTERS

Comparison of SAP and GAAP Results

Results presented in accordance with GAAP vary in certain respects from results presented in accordance with statutory accounting practices prescribed or permitted by the Pennsylvania Insurance Department (collectively "SAP"). Prescribed SAP includes state laws, regulations, and general administrative rules, as well as a variety of National Association of Insurance Commissioners publications. Permitted SAP encompasses all accounting practices that are not prescribed. Our domestic insurance subsidiary uses SAP to prepare various financial reports for use by insurance regulators.

Critical Accounting Policies

As of March 31, 2022, there were no material changes to our critical accounting estimates. For a full discussion of our critical accounting estimates, refer to page 30 under Part D in our 2021 Annual Report.

Item 5. Legal Proceedings

Positive Physicians Holdings, Inc. and its wholly owned subsidiary (collectively referred to as the "Company") are periodically subject to litigation in the normal course of its business. Based upon information presently available to us, we do not consider any litigation to be material. However, given the uncertainties attendant to litigation, we cannot assure you that our results of operations and financial condition will not be materially adversely affected by any litigation.

Item 6. Defaults Upon Senior Securities

None

Item 7. Other Information

None

Item 8. Exhibits

1.1 Interim Consolidated Financial Statements

Item 9. Issuer's Certifications

I, Michael G. Roque, certify that:

1. I have reviewed this quarterly disclosure statement of Positive Physicians Holdings, Inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in the light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: May 16, 2022

/s/ Michael G. Roque
Michael G. Roque
President and Chief Executive Officer

I, Mark J. Keyser, certify that:

1. I have reviewed this quarterly disclosure statement of Positive Physicians Holdings, Inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in the light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: May 16, 2022

/s/ Mark J. Keyser
Mark J. Keyser
Interim Chief Financial Officer

Exhibit 1.1 Interim Consolidated Financial Statements.

Positive Physicians Holdings, Inc.
Consolidated Balance Sheets

	March 31 2022 (Unaudited)	December 31, 2021
Assets		
Available-for-sale fixed maturity securities, at fair value	$ 98,933,288	$ 104,028,945
Equity securities, at fair value	474,536	240,876
Total investments	99,407,824	104,269,821
Cash and cash equivalents	19,587,904	17,197,521
Restricted cash	137,500	137,500
Accrued investment income	647,155	640,485
Premiums receivable	6,744,206	7,913,812
Other receivables	90,577	54,076
Reinsurance recoverable	10,937,907	12,750,153
Income taxes recoverable	1,575,662	1,575,662
Unearned ceded premiums	2,426,196	315,984
Deferred acquisition costs	2,882,839	2,697,307
Deferred income taxes	2,518,165	1,662,704
Goodwill	5,977,000	5,977,000
Intangible assets, net of accumulated amortization	5,409,084	5,553,334
Right-of-use lease asset	622,225	663,539
Other assets	290,192	283,492
Total assets	$ 159,254,436	$ 161,692,390
Liabilities and Stockholders' Equity		
Liabilities		
Losses and loss adjustment expenses	$ 67,876,486	$ 69,518,313
Unearned premiums	13,945,134	13,601,841
Reinsurance payable	4,107,551	1,980,790
Accounts payable, accrued expenses, and other liabilities	3,840,984	3,937,440
Lease liability	626,825	666,469
Note payable, net of debt issuance costs	2,706,187	2,705,228
Total liabilities	93,103,167	92,410,081
Stockholders' Equity		
Common stock, $0.01 par value, 10,000,000 shares authorized; 3,615,500 shares issued and outstanding	36,155	36,155
Additional paid-in capital	49,683,552	49,640,830
Retained earnings	18,532,830	18,364,635
Accumulated other comprehensive income (loss)	(2,101,268)	1,240,689
Total stockholders' equity	66,151,269	69,282,309
Total liabilities and stockholders' equity	$ 159,254,436	$ 161,692,390

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

Positive Physicians Holdings, Inc.
Consolidated Statements of Operations

	Three Months Ended March 31, 2022 (Unaudited)	Three Months Ended March 31, 2021 (Unaudited)
Revenues		
Net premiums earned	$ 4,752,488	$ 5,233,034
Net investment income	563,180	583,773
Realized investment gains, net	68,040	20,947
Other income	284,450	—
Total revenues	5,668,158	5,837,754
Expenses		
Losses and loss adjustment expenses, net	3,326,741	3,663,124
Other underwriting expenses	2,127,325	2,390,040
Interest expense	12,990	—
Total expenses	5,467,056	6,053,164
Income (loss) before provision for income taxes	201,102	(215,410)
Provision for income taxes	32,907	(57,249)
Net income (loss)	$ 168,195	$ (158,161)
Income (loss) per common share		
Common stock - basic	$ 0.05	$ (0.04)
Common stock - diluted	$ 0.05	$ (0.04)

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

Positive Physicians Holdings, Inc.
Consolidated Statements of Comprehensive Loss

	Three Months Ended March 31,	
	2022	2021
	(Unaudited)	(Unaudited)
Net income (loss)	$ 168,195	$ (158,161)
Other comprehensive loss, net of tax:		
Unrealized loss on available-for-sale fixed maturity securities:		
Unrealized holding loss during the period, net of income tax benefit of $888,368 and $417,264	(3,347,079)	(1,567,837)
Reclassification adjustments for (gains) loss included in net income (loss), net of income tax (benefit) expense of $(1,362) and $497	5,122	(1,872)
Other comprehensive loss	(3,341,957)	(1,569,709)
Comprehensive loss	$ (3,173,762)	$ (1,727,870)

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

Positive Physicians Holdings, Inc.
Consolidated Statements of Stockholders' Equity

	Three Months Ended March 31, 2022 (Unaudited)				
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, January 1, 2022	$ 36,155	$49,640,830	$18,364,635	$ 1,240,689	$69,282,309
Stock based compensation expense	—	42,722	—	—	42,722
Net income	—	—	168,195	—	168,195
Other comprehensive loss	—	—	—	(3,341,957)	(3,341,957)
Balance, March 31, 2022	$ 36,155	$49,683,552	$18,532,830	$ (2,101,268)	$66,151,269

	Three Months Ended March 31, 2021 (Unaudited)				
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, January 1, 2021	$ 36,155	$49,539,617	$20,884,912	$ 3,745,368	$74,206,052
Stock based compensation expense	—	23,707	—	—	23,707
Net loss	—	—	(158,161)	—	(158,161)
Other comprehensive loss	—	—	—	(1,569,709)	(1,569,709)
Balance, March 31, 2021	$ 36,155	$49,563,324	$20,726,751	$ 2,175,659	$72,501,889

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

Positive Physicians Holdings, Inc.
Consolidated Statements of Cash Flows

	Three Months Ended March 31, 2022 (Unaudited)	Three Months Ended March 31, 2021 (Unaudited)
Cash flows from operating activities:		
Net income (loss)	$ 168,195	$ (158,161)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Deferred income taxes	32,906	(57,095)
Net realized (loss) gains on sales of investments	5,122	(1,872)
Unrealized gains on equity securities	(73,162)	(19,075)
Amortization of fixed maturity premiums	91,794	96,171
Depreciation and amortization expense	148,268	366,217
Stock based compensation expense	42,722	23,707
Changes in operating assets and liabilities:		
Accrued investment income	(6,670)	(8,896)
Premiums receivable	1,169,606	473,587
Other receivables	(36,501)	—
Reinsurance recoverable	1,812,246	362,559
Income taxes recoverable	—	(154)
Unearned ceded premiums	(2,110,212)	991,850
Deferred acquisition costs	(185,532)	(183,717)
Right-of-use lease asset	41,314	—
Other assets	(9,759)	96,228
Losses and loss adjustment expenses	(1,641,827)	634,646
Unearned premiums	343,293	698,908
Reinsurance payable	2,126,761	(524,979)
Accounts payable, accrued expenses, and other liabilities	(96,456)	(1,364,264)
Lease liability	(39,644)	—
Net cash flows provided by operating activities	1,782,464	1,425,660
Cash flows from investing activities:		
Proceeds from maturities and sales of fixed maturity securities	6,112,525	5,314,297
Purchases of fixed maturity securities	(5,344,108)	(5,070,645)
Purchases of equity securities	(160,498)	—
Net cash flows provided by investing activities	607,919	243,652
Net change in cash and cash equivalents and restricted cash	2,390,383	1,669,312
Cash and cash equivalents and restricted cash, at beginning of period	17,335,021	18,877,746
Cash and cash equivalents and restricted cash, at end of period	$ 19,725,404	$ 20,547,058
Cash paid during the period for interest	$ 12,031	$ —
Cash recovered during the period for income taxes	$ —	$ —

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

Positive Physicians Holdings, Inc.
Notes to Unaudited Consolidated Financial Statements

1. General

a) Organization

The accompanying unaudited consolidated financial statements include the accounts of Positive Physicians Holdings, Inc. and its wholly owned subsidiaries (collectively referred to as the "Company"). Positive Physicians Holdings, Inc. is a Pennsylvania domiciled holding company, which was incorporated on May 1, 2018 for the purpose of acquiring three Pennsylvania based reciprocal insurance exchanges: Positive Physicians Insurance Exchange ("PPIX"), Professional Casualty Association ("PCA"), and Physicians' Insurance Program Exchange ("PIPE"). In connection with the completion of the Company's initial public offering, PPIX, PCA, and PIPE converted from reciprocal insurance exchanges into stock insurance companies and were merged together to form Positive Physicians Insurance Company ("Positive Insurance Company"), a wholly owned subsidiary of the Company. The Company's initial public offering and its acquisition of Positive Insurance Company were completed on March 27, 2019. Prior to that time, the Company had minimal assets and liabilities and had not engaged in any operations.

The Company's stock is currently trading on the OTCQX Best Market under the symbol, PPHI.

On September 7, 2021, through a newly formed wholly owned subsidiary of PPHI, Positive Professionals Management LLC ("PPM"), the Company entered into an asset purchase agreement with Diversus, Inc. and its wholly owned subsidiary, Diversus Management, LLC (collectively, "Diversus"). Prior to the acquisition, Diversus had managed and administered essentially all of the operations of Positive Insurance Company under the terms of a management agreement. The acquisition includes the working capital of Diversus at closing, the transfer and/or assignment of employment agreements and contracts with key third party vendors, including the lease of our home office, and full membership assignments of Gateway Risk Services, LLC ("Gateway") and Specialty Insurance Agency LLC ("SIA"). Hereinafter, Diversus, Gateway, and SIA are collectively referred to as the "Diversus Companies."

Prior to the acquisition, Gateway and SIA provided claims processing and risk management services and insurance policy brokerage services, respectively, to Positive Insurance Company and third-party customers. In connection with the asset purchase, effective September 7, 2021 PPM entered into a management agreement with Positive Insurance Company and PPHI to provide the insurance affiliate with management and administrative services. Under the post-closing structure of the Company, Gateway, a wholly owned subsidiary of PPM, continues to provide claims processing and risk management services to Positive Insurance Company and third-party customers. Under a newly formed wholly owned subsidiary of PPM, Positive Professionals Insurance Agency LLC ("PPIA"), SIA provides insurance policy brokerage services to Positive Insurance Company and third-party customers.

Products and Services

Positive Insurance Company underwrites medical professional liability coverage for physicians, their corporations, medical groups, clinics, and allied healthcare providers. Medical professional liability insurance ("MPLI") protects physicians and other health care providers against liabilities arising from the rendering of, or failure to render, professional medical services. We offer claims-made coverage, claims-made plus, and occurrence-based policies as well as tail coverage in Pennsylvania, New Jersey, Ohio, Delaware, Maryland, South Carolina, Michigan, Florida, Texas, and Georgia. Our policies include coverage for the cost of defending claims. Claims-made policies provide coverage to the policyholder for claims reported during the period of coverage. We offer extended reporting endorsements, or tails, to cover claims reported after the policy expires. Occurrence-based policies provide coverage to the policyholders for all losses incurred during the policy coverage year regardless of when the claims are reported. Although we generate a majority of our premiums from individual and small group practices, we also insure several major physician groups. The Company accounts for its medical professional liability insurance business as a single reporting segment line of business.

Gateway and SIA provide claims processing and risk management services and insurance policy brokerage services, respectively, to Positive Insurance Company and third-party customers. Since September 7, 2021, the services provided by PPM and its wholly owned subsidiaries to Positive Insurance Company and PPHI are eliminated upon consolidation in the accompanying consolidated financial statements.

b) Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022.

Our consolidated financial statements include our accounts and those of our wholly owned subsidiaries. We have eliminated all inter-company accounts and transactions in consolidation. The consolidated financial statements include the accounts of the Diversus Companies since their acquisition on September 7, 2021.

We recommend you read the interim consolidated financial statements we include in this Quarterly Report in conjunction with the financial statements and the notes to our financial statements contained in our Annual Report for the year ended December 31, 2021.

c) Summary of Significant Accounting Policies

Restricted Cash

Restricted cash represents amounts held for the benefit of third parties and is contractually restricted to withdrawal or usage. Amount represents balances pledged as collateral to meet financing agreements.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated balance sheets that total to the amounts shown in the consolidated statements of cash flows:

	2022	2021
Cash and cash equivalents	$ 19,587,904	$ 20,547,058
Restricted cash	137,500	—
Total cash and cash equivalents and restricted cash shown on consolidated statements of cash flows	$ 19,725,404	$ 20,547,058

Premiums Receivable

Premiums receivable is presented net of allowances for estimated policy cancellations and doubtful accounts. The allowance for doubtful accounts is management's best estimate of the amount of probable policies being cancelled in the Company's existing premiums receivable. The Company determines the allowance based on historical write-off experience and the probability that outstanding premiums will be paid prior to cancellation. The allowance for doubtful accounts balance at March 31, 2022 and December 31, 2021was nil and $45,510, respectively.

Refer to Footnote 3. Summary of Significant Accounting Policies of the Consolidated Financial Statements in our 2021 Annual Report for information on other significant accounting policies.

2. Intangible Assets

	March 31, 2022	Useful life
Customer relationships	$ 5,470,000	10 years
Trademarks	220,000	10 years
Covenants not-to-compete	72,000	2 years
	5,762,000	
Less accumulated amortization	352,916	
	$ 5,409,084	

Customer relationships, trademarks, and covenants not-to-compete were acquired on September 7, 2021 as part of the Diversus Companies asset purchase and are amortized on a straight-line basis over a range of two to ten years. Amortization expense for the three months ended March 31, 2022 was $144,250. Future amortization expense is $453,750 for the remainder of 2022, $593,000 in 2023, and $569,000 per year from 2024 through 2027.

3. Investments

The Company uses fair value measurements to record fair value adjustments to certain assets to determine fair value disclosures. Fixed maturity available-for-sale securities and equity securities are recorded at fair value on a recurring basis. FASB ASC Topic 820 "Fair Value Measurements and Disclosures" establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The three levels of the fair value hierarchy under ASC Topic 820 are as follows:

Level 1: Quoted (unadjusted) prices for identical assets in active markets.

Level 2: Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time, etc.);
- Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates, etc.); and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3: Unobservable inputs that cannot be corroborated by observable market data.

Under ASC Topic 820, we base fair values of assets on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy in FASB ASC Topic 820. Fair value measurements for assets where there exists limited or no observable market data and, therefore, are based primarily upon our or other third-party's estimates, are often calculated based on the characteristics of the asset, the economic and competitive environment, and other such factors. Management uses its best judgment in estimating the fair value of financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts we could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective period end and have not been re-evaluated or updated for purposes of the consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end. Additionally, changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future valuations.

We obtain one price for each security primarily from a third-party pricing service ("pricing service"), which generally uses quoted prices or other observable inputs for the determination of fair value. The pricing service normally derives the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, non-binding broker quotes, benchmark yields, credit spreads, default rates, and prepayment speeds.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest-level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

	Amortized Cost/Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2022				
U.S. government	$ 5,689,375	$ 17,319	$ 106,333	$ 5,600,361
States, territories, and possessions	860,677	2,068	—	862,745
Subdivisions of states, territories, and possessions	8,456,357	71,537	6,392	8,521,502
Industrial and miscellaneous	86,586,711	182,968	2,820,999	83,948,680
Total fixed maturity securities	$101,593,120	$ 273,892	$ 2,933,724	$ 98,933,288

	Amortized Cost/Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
U.S. government	$ 5,728,192	$ 67,884	$ 18,021	$ 5,778,055
States, territories, and possessions	864,670	11,626	—	876,296
Subdivisions of states, territories, and possessions	9,542,554	253,876	2,573	9,793,857
Industrial and miscellaneous	86,323,037	1,859,513	601,813	87,580,737
Total fixed maturity securities	$102,458,453	$ 2,192,899	$ 622,407	$104,028,945

The table below sets forth the contractual maturity profile of our investments in fixed maturity securities at March 31, 2022 and December 31, 2021. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

	March 31, 2022		December 31, 2021	
	Amortized Cost/Cost	Fair Value	Amortized Cost/Cost	Fair Value
Due in less than one year	$ 14,230,101	$ 14,260,719	$ 13,749,319	$ 13,854,653
Due after one year to five years	63,373,567	62,337,723	63,705,363	65,153,681
Due after five years to ten years	22,778,593	21,141,179	23,758,972	23,734,190
Due after ten years	,210,859	1,193,667	1,244,799	1,286,421
	$ 101,593,120	$ 98,933,288	$102,458,453	$104,028,945

Realized gains and losses are determined using the specific identification method. During the three months ended March 31, 2022 and 2021, proceeds from maturities and sales and gross realized gains and losses on securities are as follows:

	Three Months Ended March 31,	
	2022	2021
Proceeds	$ 6,112,525	$ 5,314,297
Gross gains	5,993	3,746
Gross losses	11,115	1,874

	Three Months Ended March 31,	
	2022	2021
Gain (loss) on sales of fixed maturity securities	$ (5,122)	$ 1,872
Gain on sales of equity securities	—	—
Total gain (loss) on sales of investments	(5,122)	1,872
Unrealized gain on equity securities	73,162	19,075
Total net realized investment gains	$ 68,040	$ 20,947

	Three Months Ended March 31,	
	2022	2021
Fixed maturity securities	$ 574,563	$ 595,159
Cash and short-term investments	2,811	5,308
Equity securities	5,154	2,802
Other income	8,125	7,125
	590,653	610,394
Less: investment expenses	27,473	26,621
Net investment income	$ 563,180	$ 583,773

The following tables show fair value and gross unrealized losses of our fixed maturity investments with unrealized losses that are not deemed to be other-than temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2022 and December 31, 2021:

	Less than 12 months		12 months or longer		Total	
Description of securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
March 31, 2022:						
U.S. government	$ 3,252,439	$ 88,229	$ 931,897	$ 18,104	$ 4,184,336	$ 106,333
States, territories, and possessions	—	—	—	—	—	—
Subdivisions of states, territories, and possessions	504,795	2,615	71,444	3,777	576,239	6,392
Industrial and miscellaneous	44,357,918	1,949,767	8,282,848	871,232	52,640,766	2,820,999
Total fixed maturity securities	$ 48,115,152	$2,040,611	$9,286,189	$ 893,113	$57,401,341	$2,933,724

	Less than 12 months		12 months or longer		Total	
Description of securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
December 31, 2021:						
U.S. government	$ 2,955,456	$ 15,765	$ 197,744	$ 2,256	$ 3,153,200	$ 18,021
States, territories, and possessions	—	—	—	—	—	—
Subdivisions of states, territories, and possessions	—	—	72,664	2,573	72,664	2,573
Industrial and miscellaneous	30,585,850	574,110	550,192	27,703	31,136,042	601,813
Total fixed maturity securities	$33,541,306	$ 589,875	$ 820,600	$ 32,532	$34,361,906	$ 622,407

Fair values of interest rate sensitive instruments may be affected by increases and decreases in prevailing interest rates, which generally translate, respectively, into decreases and increases in fair values of fixed maturity investments. The fair values of interest rate sensitive instruments also may be affected by the credit worthiness of the issuer, prepayment options, the liquidity of the instrument, and other general market conditions.

We evaluated each security and took into account the severity and duration of the impairment, the current rating on the bond, and the outlook for the issuer according to independent analysts. We found that the declines in fair value are most likely attributable to increases in interest rates, and there is no evidence that the likelihood of not receiving all of the contractual cash flows as expected has changed. Our fixed maturity portfolio is managed by our investment committee in concert with an outside investment manager for investment grade bond investments. By agreement, the investment manager cannot sell any security without the consent of our investment committee if such sale will result in a net realized loss.

We monitor our investment portfolio and review securities that have experienced a decline in fair value below cost to evaluate whether the decline is other than temporary. When assessing whether the amortized cost basis of the security will be recovered, we compare the present value of the cash flows likely to be collected, based on an evaluation of all available information relevant to the collectability of the security, to the amortized cost basis of the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is referred to as the “credit loss.” If there is a credit loss, the impairment is considered to be other-than-temporary. If we identify that an other-than-temporary impairment loss has occurred, we then determine whether we intend to sell the security, or if it is more likely than not that we will be required to sell the security prior to recovering the amortized cost basis less any current-period credit losses. If we determine that we do not intend to sell, and it is more likely than not that we won’t be required to sell the security, then the amount of the impairment loss related to the credit loss will be recorded in earnings, and the remaining portion of the other-than-temporary impairment loss will be recognized in other comprehensive income (loss), net of tax. If we determine that we intend to sell the security, or that it is more likely than not that we will be required to sell the security prior to recovering its amortized cost basis less any current-period credit losses, then the full amount of the other-than-temporary impairment will be recognized in earnings.

For the three months ended March 31, 2022 and 2021, we determined that none of our fixed maturity securities were other-than-temporarily impaired. Adverse investment market conditions, or poor operating results of underlying investments, could result in impairment charges in the future.

March 31, 2022	Total	Level 1	Level 2	Level 3
U.S. government	$ 5,600,361	$ —	$ 5,600,361	$ —
States, territories, and possessions	862,745	—	862,745	—
Subdivisions of states, territories and possessions	8,521,502	—	8,521,502	—
Industrial and miscellaneous	83,948,680	—	83,948,680	—
Total fixed maturity securities	93,933,288	—	93,933,288	—
Equity securities	474,536	474,536	—	—
	$99,407,824	$ 474,536	$93,933,288	$ —

December 31, 2021	Total	Level 1	Level 2	Level 3
U.S. government	$ 5,778,055	$ —	$ 5,778,055	$ —
States, territories, and possessions	876,296	—	876,296	—
Subdivisions of states, territories and possessions	9,793,857	—	9,793,857	—
Industrial and miscellaneous	87,580,737	—	87,580,737	—
Total fixed maturity securities	104,028,945	—	104,028,945	—
Equity securities	240,876	240,876	—	—
	$ 104,269,821	$ 240,876	$104,028,945	$ —

4. Deferred Acquisition Costs

	Three Months Ended March 31,	
	2022	2021
Balance, beginning of year	$ 2,697,307	$ 2,611,445
Amount capitalized during the period	1,666,662	1,653,242
Amount amortized during the period	1,481,130	1,469,525
Balance, end of period	$ 2,882,839	$ 2,795,162

5. Reinsurance

	Three Months Ended March 31,	
	2022	2021
Premiums written:		
Direct	$ 6,453,089	$ 7,148,813
Ceded	3,467,519	225,021
Premiums written, net of reinsurance	$ 2,985,570	$ 6,923,792
Premiums earned:		
Direct	$ 6,109,795	$ 6,449,905
Ceded	1,357,307	1,216,871
Premiums earned, net of reinsurance	$ 4,752,488	$ 5,233,034
Losses and loss adjustment expenses incurred:		
Direct	$ 4,276,857	$ 4,514,934
Ceded	950,116	851,810
Losses and loss adjustment expenses incurred, net of reinsurance	$ 3,326,741	$ 3,663,124

Under the Company's current reinsurance agreement, which was renewed on January 1, 2022, we retain a portion of our exposure and pay to the reinsurers a portion of the premiums received on all policies reinsured. We also purchase additional reinsurance coverage for clash, losses in excess of policy limits and extra contractual obligation claims. Our premiums under the current reinsurance agreement are based on a percentage of our earned premiums during the term of the agreement.

6. Losses and Loss Adjustment Expenses

At March 31, 2022, the Company estimated that its liability for unpaid losses and loss adjustment expenses ("LAE") for all insurance policies issued by its insurance business was $67,876,486. This amount included estimated losses from claims plus estimated expenses to settle claims. This estimate also included estimated amounts for losses occurring on or prior to March 31, 2022 that had not yet been reported to the Company. At March 31, 2022, the Company also estimated that its reinsurance recoverable on unpaid claims was $10,480,606.

Management believes that its unpaid losses and LAE are fairly stated at March 31, 2022. However, estimating the ultimate claims liability is necessarily a complex and judgmental process inasmuch as the amounts are based on management's informed estimates, assumptions and judgments using data currently available. As additional experience and data become available regarding claims payment and reporting patterns, legal and legislative developments, judicial theories of liability, changes in social attitudes and economic conditions, the estimates are revised accordingly. Original estimates are also increased or decreased, as additional information becomes known regarding individual claims. If the Company's ultimate losses, net of reinsurance, prove to differ substantially from the amounts recorded at March 31, 2022, then the related adjustments could have a material adverse impact on the Company's financial condition, results of operations and liquidity.

Positive Insurance Company uses a combination of the Actual versus Expected Method, Bornhuetter-Ferguson Method, Expected Loss Ratio Method, Frequency/Severity Method, and the Incurred Loss Development Method in order to estimate its liability for losses and LAE. There were no significant changes in the methodologies and assumptions used to develop the liabilities for losses and LAE during the three months ended March 31, 2022.

7. Common Stock

The Company is authorized to issue 10,000,000 shares of $0.01 par value common stock. In connection with the completion of the initial public offering on March 27, 2019, 3,615,500 shares of the Company's common stock were issued. At March 31, 2022, 3,615,500 shares of common stock remain issued and outstanding.

The holding company has cash and other liquid assets aggregating $12,027,944 at March 31, 2022. The holding company's principal source of liquidity is tax share payments from Positive Insurance Company. During the three months ended March 31, 2022 and 2021, the holding company received tax share payments of nil and $207,687 from Positive Insurance Company. Its future liquidity will also include dividend payments from Positive Insurance Company, which is restricted by the insurance laws and regulations of the Commonwealth of Pennsylvania as to the amount of dividends or other distributions it may pay to the Company.

An order by the Pennsylvania Insurance Department approving the conversions of PPIX, PCA, and PIPE prohibits the declaration or payment of any dividend, return of capital, or other distribution by the Company to Insurance Capital Group, LLC and Enstar Holdings (US) LLC, the two principal stockholders of the Company, or any other shareholder without the prior approval of the Pennsylvania Insurance Department, for a period of three years following the effective date of the conversions. Additionally, by the order of the Pennsylvania Insurance Department, Positive Insurance Company cannot pay a dividend to the Company for a period of three years following the effective date of the conversions without the approval of the Pennsylvania Insurance Department. The three-year period terminated on March 27, 2022.

Prior to its payment of any dividend, Positive Insurance Company will be required to provide notice of the dividend to the Pennsylvania Insurance Department. This notice must be provided to the Pennsylvania Insurance Department 30 days prior to the payment of an extraordinary dividend and 10 days prior to the payment of an ordinary dividend. The Pennsylvania Insurance Department has the power to limit or prohibit dividends if Positive Insurance Company is in violation of any law or regulation.

8. Income (Loss) Per Share

	Three Months Ended March 31,	
	2022	2021
Basic and diluted income (loss) per common share:		
Numerator:		
Net income (loss)	$ 168,195	$ (158,161)
Denominator:		
Weighted average shares outstanding	3,615,500	3,615,500
Basic and diluted income (loss) per common share	$ 0.05	$ (0.04)

The basic weighted average number of common shares outstanding was 3,615,500 for the three months ended March 31, 2022 and 2021. The effects of 73,117 and 38,738 stock options were excluded from the computations of diluted loss per common share for the three months ended March 31, 2022 and 2021, because they were anti-dilutive.

9. Subsequent Events

Subsequent events have been evaluated through May 16, 2022, which is the date the interim consolidated financial statements were available to be issued.

On April 12, 2022, the Company's Board of Directors declared a cash dividend of $4 million (approximately $1.10 per share) payable to shareholders of its outstanding Common stock with record date of the close of business on April 12, 2022. The Company paid the cash dividend on April 19, 2022.

On May 16, 2022, the Company announced that Lewis Sharps, MD, founder of Positive Physicians Insurance Exchange in 2002 and having been a critical component of the Company's growth over the past 20 years, is stepping down from his position as Chief Executive Officer. Given his long history with the Company and insurance industry, Dr. Sharps will remain in an advisory role as Founder Emeritus with the Company. Michael G. Roque, who joined the Company as President in 2021, will now assume the role of President and CEO, effective immediately.

No other subsequent events requiring recognition or disclosure were noted.