

Edgar Filing: Conifer Holdings, Inc. - Form 10-Q

Conifer Holdings, Inc.  
Form 10-Q  
May 09, 2018

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

FORM 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the Quarterly Period Ended March 31, 2018

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 001-37536

Conifer Holdings, Inc.  
(Exact name of registrant as specified in its charter)  
Michigan 27-1298795  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

550 West Merrill Street, Suite 200  
Birmingham, Michigan 48009  
(Address of principal executive offices) (Zip code)

(248) 559-0840  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

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Large accelerated filer  Accelerated filer  Non-accelerated filer   
(Do not check if a smaller reporting company)  Smaller reporting company  Emerging growth company

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

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

The number of outstanding shares of the registrant's common stock, no par value, as of May 7, 2018, was 8,520,328.

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CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Form 10-Q

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PART 1 - FINANCIAL INFORMATION  
ITEM 1 - FINANCIAL STATEMENTS  
CONIFER HOLDINGS, INC. AND SUBSIDIARIES  
Consolidated Balance Sheets  
(dollars in thousands)

|  | March 31,<br>2018<br>(Unaudited) | December<br>31, 2017 |
|--|----------------------------------|----------------------|
| Assets   |                                  |                      |
| Investment securities:   |                                  |                      |
| Debt securities, at fair value (amortized cost of \$137,025 and \$137,004, respectively)                   | \$ 134,711                       | \$ 136,536           |
| Equity securities, at fair value (cost of \$8,664 and \$8,629, respectively)                               | 9,425                            | 9,687                |
| Short-term investments, at fair value  | 2,505                            | 11,427               |
| Total investments  | 146,641                          | 157,650              |
| Cash   | 14,406                           | 11,868               |
| Premiums and agents' balances receivable, net  | 19,895                           | 22,845               |
| Receivable from Affiliate  | 1,783                            | 1,195                |
| Reinsurance recoverables on unpaid losses  | 20,063                           | 20,066               |
| Reinsurance recoverables on paid losses  | 4,595                            | 4,473                |
| Prepaid reinsurance premiums   | 1,050                            | 1,081                |
| Deferred policy acquisition costs  | 12,050                           | 12,781               |
| Other assets   | 9,171                            | 7,073                |
| Total assets   | \$ 229,654                       | \$ 239,032           |
| Liabilities and Shareholders' Equity   |                                  |                      |
| Liabilities:   |                                  |                      |
| Unpaid losses and loss adjustment expenses   | \$ 85,491                        | \$ 87,896            |
| Unearned premiums  | 53,685                           | 57,672               |
| Reinsurance premiums payable   | 3,398                            | 3,299                |
| Debt   | 29,043                           | 29,027               |
| Accounts payable and other liabilities   | 6,613                            | 8,312                |
| Total liabilities  | 178,230                          | 186,206              |
| Commitments and contingencies  | —                                | —                    |
| Shareholders' equity:  |                                  |                      |
| Common stock, no par value (100,000,000 shares authorized; 8,520,328 issued and outstanding, respectively) | 86,430                           | 86,199               |
| Accumulated deficit  | (32,318 )                        | (33,010 )            |
| Accumulated other comprehensive loss   | (2,688 )                         | (363 )               |
| Total shareholders' equity   | 51,424                           | 52,826               |
| Total liabilities and shareholders' equity   | \$ 229,654                       | \$ 239,032           |

The accompanying notes are an integral part of the Consolidated Financial Statements.

## CONIFER HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Statements of Operations (Unaudited)

(dollars in thousands, except per share data)

|   | Three Months<br>Ended<br>March 31, |            |
|---|------------------------------------|------------|
|   | 2018                               | 2017       |
| Revenue   |                                    |            |
| Premiums  |                                    |            |
| Gross earned premiums   | \$27,724                           | \$28,264   |
| Ceded earned premiums   | (3,924 )                           | (4,124 )   |
| Net earned premiums   | 23,800                             | 24,140     |
| Net investment income   | 802                                | 577        |
| Net realized investment gains (losses)                              | 161                                | (8 )       |
| Change in fair value of equity securities                           | (297 )                             | —          |
| Other income  | 357                                | 354        |
| Total revenue   | 24,823                             | 25,063     |
| Expenses  |                                    |            |
| Losses and loss adjustment expenses, net                            | 13,328                             | 15,733     |
| Policy acquisition costs  | 6,513                              | 6,472      |
| Operating expenses  | 4,187                              | 4,530      |
| Interest expense  | 619                                | 224        |
| Total expenses  | 24,647                             | 26,959     |
| Income (loss) before equity earnings of affiliates and income taxes | 176                                | (1,896 )   |
| Equity earnings of affiliates, net of tax                           | 55                                 | 104        |
| Income tax expense  | 18                                 | 6          |
| Net income (loss)   | \$213                              | \$(1,798 ) |
| Earnings (loss) per common share, basic and diluted                 | \$0.02                             | \$(0.24 )  |
| Weighted average common shares outstanding, basic and diluted       | 8,520,328                          | 7,633,069  |

The accompanying notes are an integral part of the Consolidated Financial Statements.

## CONIFER HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(dollars in thousands)

|  | Three Months<br>Ended<br>March 31, |           |
|--|------------------------------------|-----------|
|  | 2018                               | 2017      |
| Net income (loss)  | \$213                              | \$(1,798) |
| Other comprehensive income (loss), net of tax:                       |                                    |           |
| Unrealized investment gains (losses):                                |                                    |           |
| Unrealized investment gains (losses) during the period               | (1,846 )                           | 385       |
| Income tax expense (benefit)   | —                                  | —         |
| Unrealized investment gains (losses), net of tax                     | (1,846 )                           | 385       |
| Less: reclassification adjustments to:                               |                                    |           |
| Net realized investment gains (losses) included in net income (loss) | —                                  | 51        |
| Income tax expense (benefit)   | —                                  | —         |
| Total reclassifications included in net income (loss), net of tax    | —                                  | 51        |
| Other comprehensive income (loss)                                    | (1,846 )                           | 334       |
| Total comprehensive income (loss)                                    | \$(1,633)                          | \$(1,464) |

The accompanying notes are an integral part of the Consolidated Financial Statements.

## CONIFER HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

(dollars in thousands)

|   | No Par, Common<br>Stock |          | Accumulated<br>deficit | Accumulated                                | Total<br>Shareholders'<br>Equity |
|---|-------------------------|----------|------------------------|--|----------------------------------|
|   | Shares                  | Amount   |                        | Other<br>Comprehensive<br>Income<br>(Loss) |                                  |
| Balances at December 31, 2016                                     | 7,633,070               | \$80,342 | \$ (11,468 )           | \$ (1,080 )                                | \$ 67,794                        |
| Net loss  | —                       | —        | (1,798 )               | —  | (1,798 )                         |
| Restricted stock unit expense, net                                | (1 )                    | 243      | —                      | —  | 243                              |
| Other comprehensive income  | —                       | —        | —                      | 334  | 334                              |
| Balances at March 31, 2017  | 7,633,069               | 80,585   | (13,266 )              | (746 )                                     | 66,573                           |
| Net loss  | —                       | —        | (19,744 )              | —  | (19,744 )                        |
| Issuance of common stock in private placement                     | 800,000                 | 5,000    | —                      | —  | 5,000                            |
| Common stock issuance costs                                       | —                       | (38 )    | —                      | —  | (38 )                            |
| Restricted stock unit expense, net                                | 87,259                  | 652      | —                      | —  | 652                              |
| Other comprehensive income  | —                       | —        | —                      | 383  | 383                              |
| Balances at December 31, 2017                                     | 8,520,328               | 86,199   | (33,010 )              | (363 )                                     | 52,826                           |
| Net income  | —                       | —        | 213                    | —  | 213                              |
| Restricted stock unit expense, net                                | —                       | 231      | —                      | —  | 231                              |
| Other comprehensive loss  | —                       | —        | —                      | (1,846 )                                   | (1,846 )                         |
| Cumulative effect of adoption of ASU No. 2016-01,<br>net of taxes | —                       | —        | 556                    | (556 )                                     | —                                |
| Cumulative effect of adoption of ASU No. 2018-02,<br>net of taxes | —                       | —        | (77 )                  | 77   | —                                |
| Balances at March 31, 2018  | 8,520,328               | \$86,430 | \$ (32,318 )           | \$ (2,688 )                                | \$ 51,424                        |

The accompanying notes are an integral part of the Consolidated Financial Statements.

CONIFER HOLDINGS, INC. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows (Unaudited)  
(In thousands)

|  | Three Months<br>Ended<br>March 31, |            |
|--|------------------------------------|------------|
|  | 2018                               | 2017       |
| <b>Cash Flows From Operating Activities</b>  |                                    |            |
| Net income (loss)  | \$213                              | \$(1,798 ) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                                    |            |
| Depreciation and amortization  | 88                                 | 100        |
| Amortization of bond premium and discount, net   | 139                                | 175        |
| Net realized investment (gains) losses   | (161 )                             | 8          |
| Change in fair value of equity securities  | 297                                | —          |
| Restricted stock unit expenses   | 231                                | 243        |
| Other  | (55 )                              | 104        |
| Changes in operating assets and liabilities:   |                                    |            |
| (Increase) decrease in:  |                                    |            |
| Premiums and agents' balances and other receivables                                      | 2,362                              | 1,616      |
| Reinsurance recoverables   | (119 )                             | (2,688 )   |
| Prepaid reinsurance premiums   | 31                                 | 314        |
| Deferred policy acquisition costs  | 731                                | 334        |
| Other assets   | (2,075 )                           | (1,037 )   |
| Increase (decrease) in:  |                                    |            |
| Unpaid losses and loss adjustment expenses   | (2,405 )                           | 7,484      |
| Unearned premiums  | (3,987 )                           | (1,790 )   |
| Accounts payable and other liabilities   | 802                                | 861        |
| Net cash provided by (used in) operating activities                                      | (3,908 )                           | 3,926      |
| <b>Cash Flows From Investing Activities</b>  |                                    |            |
| Purchase of investments  | (25,175 )                          | (51,207 )  |
| Proceeds from maturities and redemptions of investments                                  | 5,079                              | 8,889      |
| Proceeds from sales of investments   | 26,563                             | 36,729     |
| Purchases of property and equipment  | (21 )                              | (9 )       |
| Net cash provided by (used in) investing activities                                      | 6,446                              | (5,598 )   |
| <b>Cash Flows From Financing Activities</b>  |                                    |            |
| Repayment of borrowings under debt arrangements  | —                                  | (625 )     |
| Net cash provided by (used in) financing activities                                      | —                                  | (625 )     |
| Net increase (decrease) in cash  | 2,538                              | (2,297 )   |
| Cash at beginning of period  | 11,868                             | 12,493     |
| Cash at end of period  | \$14,406                           | \$10,196   |
| <b>Supplemental Disclosure of Cash Flow Information:</b>                                 |                                    |            |
| Interest paid  | \$619                              | \$128      |
| Net income taxes paid  | —                                  | —          |
| Receivable (Payable) for securities - non cash item                                      | 3,094                              | (444 )     |

The accompanying notes are an integral part of the Consolidated Financial Statements.

CONIFER HOLDINGS, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include accounts, after elimination of intercompany accounts and transactions, of Conifer Holdings, Inc. (the "Company" or "Conifer"), its wholly owned subsidiaries, Conifer Insurance Company ("CIC"), White Pine Insurance Company ("WPIC"), Red Cedar Insurance Company ("RCIC"), and Sycamore Insurance Agency, Inc ("SIA"). CIC, WPIC, and RCIC are collectively referred to as the "Insurance Company Subsidiaries." On a stand-alone basis, Conifer Holdings, Inc. is referred to as the "Parent Company."

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The Company has applied the rules and regulations of the United States Securities and Exchange Commission ("SEC") regarding interim financial reporting and therefore the consolidated financial statements do not include all of the information and notes required by GAAP for annual financial statements. In the opinion of Management, all adjustments, consisting of items of a normal recurring nature, necessary for a fair presentation of the consolidated interim financial statements, have been included. The results of operations for the three months ended March 31, 2018, are not necessarily indicative of the results expected for the year ended December 31, 2018.

These consolidated financial statements and the notes thereto should be read in conjunction with the Company's audited consolidated financial statements and related notes included in its Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC on March 15, 2018.

Business

The Company is engaged in the sale of property and casualty insurance products and has organized its business model around two classes of insurance businesses: commercial and personal lines. The Company underwrites a variety of specialty insurance products, including property, general liability, liquor liability, automobile, homeowners and dwelling policies. The Company markets and sells its insurance products through a network of independent retail agents and managing general agents. Policies are written in all 50 states. The Company's corporate headquarters is located in Birmingham, Michigan with additional office facilities in Florida, Pennsylvania and Tennessee.

The Company also generates other revenues through investment income and other income which mainly consists of installment fees and policy issuance fees generally related to the policies we write. We also generate equity earnings from SIA's 50% owned agency (the "Affiliate"). The Affiliate places small commercial risks mainly for alarm and security guard markets.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While management believes the amounts included in the consolidated financial statements reflect Management's best estimates and assumptions, actual results may differ from these estimates.

Recently Issued Accounting Guidance

Effective January 1, 2018, the Company adopted FASB Accounting Standards Update ("ASU") No. 2016-01, Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities. As a result of adoption of this ASU, equity instruments that do not result in consolidation and are not accounted for under the equity method are measured at fair value and any changes in fair value are recognized in net income. Previously, the Company's equity securities were classified as available-for-sale and changes in fair value were recorded in other comprehensive income. Upon adoption of this ASU, cumulative net unrealized gains on equity securities of \$1.1 million, net of deferred income taxes of \$0.5 million, were reclassified from accumulated other comprehensive income into accumulated deficit. Prior periods have not been recast to conform to the current presentation. See Note 2

~ Investments for details regarding the change in net unrealized gains on equity securities included in net income for the quarter ended March 31, 2018.

Effective January 1, 2018, the Company early adopted ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The ASU provides an option to reclassify tax effects remaining in accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act (TCJA) to retained earnings. Upon enactment of the TCJA, the U.S. corporate tax rate was reduced from 35% to 21% and the Company's U.S. deferred tax balances were remeasured to the lower enacted U.S. corporate tax rate. GAAP requires the effects of changes in tax rates and laws on deferred tax balances to be recorded as a component of income tax expense in the period of enactment, even if the assets and liabilities relate to items of accumulated other comprehensive

CONIFER HOLDINGS, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Unaudited)

income. As a result of adopting the ASU, the Company reclassified \$77,000 of previously recognized deferred taxes from accumulated other comprehensive income into accumulated deficit as of January 1, 2018.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which addresses the financial reporting of leasing transactions. This update will require the recognition of a right-of-use asset and a corresponding lease liability, discounted to the present value, for all leases that extend beyond 12 months. For operating leases, the asset and liability will be expensed over the lease term on a straight-line basis, with all cash flows included in the operating section of the consolidated statement of cash flows. For finance leases, interest on the lease liability will be recognized separately from the amortization of the right-of-use asset in the consolidated statement of operations and the repayment of the principal portion of the lease liability will be classified as a financing activity while the interest component will be included in the operating section of the consolidated statement of cash flows. This ASU is effective for annual and interim reporting periods beginning after December 15, 2018. Early adoption is permitted.

Management is currently evaluating the impact of the guidance.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326), which amends the current methodology and timing for recognizing credit losses. This amendment will replace the current GAAP "incurred loss" methodology for credit losses with a methodology based on expected credit losses. The new guidance will also require expanded consideration of a broader range of reasonable and increased supportable information for the credit loss estimates. This ASU is effective for annual and interim reporting periods beginning after December 15, 2019. Early adoption is permitted for years beginning after December 15, 2018. Management is currently evaluating the impact of the guidance.

## 2. Investments

The cost or amortized cost, gross unrealized gain or loss, and estimated fair value of the investments in securities classified as available for sale at March 31, 2018 and December 31, 2017, were as follows (dollars in thousands):

|  | March 31, 2018               |                              |           |                            |
|--|------------------------------|------------------------------|-----------|----------------------------|
|  | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Losses    | Estimated<br>Fair<br>Value |
| Debt Securities:                         |                              |                              |           |                            |
| U.S. Government                          | \$15,896                     | \$4                          | \$(222)   | \$15,678                   |
| State and local government               | 16,668                       | 85                           | (201)     | 16,552                     |
| Corporate debt                           | 38,806                       | 92                           | (651)     | 38,247                     |
| Asset-backed securities                  | 25,331                       | 37                           | (110)     | 25,258                     |
| Mortgage-backed securities               | 33,981                       | 22                           | (1,242)   | 32,761                     |
| Commercial mortgage-backed securities    | 3,935                        | —                            | (85)      | 3,850                      |
| Collateralized mortgage obligations      | 2,408                        | 12                           | (54)      | 2,365                      |
| Total debt securities available for sale | \$137,025                    | \$252                        | \$(2,565) | \$134,711                  |

CONIFER HOLDINGS, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Unaudited)

|  | December 31, 2017            |                              |                      | Estimated<br>Fair<br>Value |
|--|------------------------------|------------------------------|----------------------|----------------------------|
|  | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Unrealized<br>Losses |                            |
| Debt Securities:                         |                              |                              |                      |                            |
| U.S. Government                          | \$ 17,179                    | \$ 10                        | \$(99)               | \$ 17,090                  |
| State and local government               | 17,302                       | 255                          | (54)                 | 17,503                     |
| Corporate debt                           | 38,947                       | 170                          | (209)                | 38,908                     |
| Asset-backed securities                  | 23,539                       | 36                           | (35)                 | 23,540                     |
| Mortgage-backed securities               | 33,942                       | 38                           | (522)                | 33,458                     |
| Commercial mortgage-backed securities    | 3,532                        | 3                            | (44)                 | 3,491                      |
| Collateralized mortgage obligations      | 2,563                        | 19                           | (36)                 | 2,546                      |
| Total debt securities available for sale | 137,004                      | 531                          | (999)                | 136,536                    |
| Equity Securities (1)                    | 8,629                        | 1,240                        | (182)                | 9,687                      |
| Total securities available for sale      | \$ 145,633                   | \$ 1,771                     | \$(1,181)            | \$ 146,223                 |

(1) Effective January 1, 2018, the Company adopted ASU No. 2016-01. As a result, equity securities are no longer classified as available-for-sale. Prior periods have not been recast to conform to the current presentation. Refer to Note 1 ~ Summary of Significant Accounting Policies for further details.

The following table summarizes the aggregate fair value and gross unrealized losses, by security type, of the available-for-sale securities in unrealized loss positions. The table segregates the holdings based on the length of time that individual securities have been in a continuous unrealized loss position, as follows (dollars in thousands):

|  | March 31, 2018                        |   |                               | Greater than 12 months                |   |                               | Total                                 |   |                               |
|--|---------------------------------------|---|-------------------------------|---------------------------------------|---|-------------------------------|---------------------------------------|---|-------------------------------|
|  | Less than 12 months                   |   |                               | Greater than 12 months                |   |                               | Total                                 |   |                               |
|  | No. of<br>Investments<br>of<br>Issues | Fair Value<br>of<br>Investments<br>with<br>Unrealized<br>Losses | Gross<br>Unrealized<br>Losses | No. of<br>Investments<br>of<br>Issues | Fair Value<br>of<br>Investments<br>with<br>Unrealized<br>Losses | Gross<br>Unrealized<br>Losses | No. of<br>Investments<br>of<br>Issues | Fair Value<br>of<br>Investments<br>with<br>Unrealized<br>Losses | Gross<br>Unrealized<br>Losses |
| Fixed Maturity Securities:               |                                       |   |                               |                                       |   |                               |                                       |   |                               |
| U.S. Government                          | 12                                    | \$ 12,889   | \$(175)                       | 6                                     | \$ 1,960  | \$(47)                        | 18                                    | \$ 14,849   | \$(222)                       |
| State and local government               | 39                                    | 10,338  | (145)                         | 7                                     | 1,380   | (56)                          | 46                                    | 11,718  | (201)                         |
| Corporate debt                           | 62                                    | 21,989  | (284)                         | 106                                   | 350   | (367)                         | 72                                    | 28,339  | (651)                         |
| Asset-backed securities                  | 23                                    | 14,448  | (101)                         | 3                                     | 793   | (9)                           | 26                                    | 15,241  | (110)                         |
| Mortgage-backed securities               | 11                                    | 8,175   | (191)                         | 27                                    | 23,390  | (1,051)                       | 38                                    | 31,565  | (1,242)                       |
| Commercial mortgage-backed securities    | 4                                     | 2,732   | (32)                          | 2                                     | 667   | (53)                          | 6                                     | 3,399   | (85)                          |
| Collateralized mortgage obligations      | 9                                     | 1,869   | (54)                          | —                                     | —   | —                             | 9                                     | 1,869   | (54)                          |
| Total debt securities available for sale | 160                                   | \$ 72,440   | \$(982)                       | 55                                    | \$ 34,540   | \$(1,583)                     | 215                                   | \$ 106,980  | \$(2,565)                     |

CONIFER HOLDINGS, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Unaudited)

|  | December 31, 2017      |   |                               |                        |   |                               |                  |   |                               |
|--|------------------------|---|-------------------------------|------------------------|---|-------------------------------|------------------|---|-------------------------------|
|  | Less than 12 months    |   |                               | Greater than 12 months |   |                               | Total            |   |                               |
|  | Fair Value             |   |                               | Fair Value             |   |                               | Fair Value       |   |                               |
|  | No. of<br>of<br>Issues | No. of<br>Investments<br>with<br>Unrealized<br>Losses | Gross<br>Unrealized<br>Losses | No. of<br>Issues       | No. of<br>Investments<br>with<br>Unrealized<br>Losses | Gross<br>Unrealized<br>Losses | No. of<br>Issues | No. of<br>Investments<br>with<br>Unrealized<br>Losses | Gross<br>Unrealized<br>Losses |
| Fixed Maturity Securities:               |                        |   |                               |                        |   |                               |                  |   |                               |
| U.S. Government                          | 12                     | \$ 11,555   | \$ (64 )                      | 7                      | \$ 2,207  | \$ (35 )                      | 19               | \$ 13,762   | \$ (99 )                      |
| State and local government               | 10                     | 3,511   | (20 )                         | 7                      | 1,424   | (34 )                         | 17               | 4,935   | (54 )                         |
| Corporate debt                           | 38                     | 15,236  | (46 )                         | 106                    | 5,555   | (163 )                        | 48               | 21,791  | (209 )                        |
| Asset-backed securities                  | 20                     | 13,948  | (29 )                         | 3                      | 915   | (6 )                          | 23               | 14,863  | (35 )                         |
| Mortgage-backed securities               | 6                      | 4,935   | (19 )                         | 262                    | 4,939   | (503 )                        | 32               | 29,874  | (522 )                        |
| Commercial mortgage-backed securities    | 3                      | 2,026   | (12 )                         | 2                      | 722   | (32 )                         | 5                | 2,748   | (44 )                         |
| Collateralized mortgage obligations      | 8                      | 1,870   | (36 )                         | —                      | —   | —                             | 8                | 1,870   | (36 )                         |
| Total debt securities available for sale | 97                     | 53,081  | (226 )                        | 553                    | 6,762   | (773 )                        | 152              | 89,843  | (999 )                        |
| Equity Securities (1)                    | 13                     | 436   | (75 )                         | 4                      | 266   | (107 )                        | 17               | 702   | (182 )                        |
| Total securities                         | 110                    | \$ 53,517   | \$ (301 )                     | 59                     | \$ 37,028   | \$ (880 )                     | 169              | \$ 90,545   | \$ (1,181 )                   |

(1) Effective January 1, 2018, the Company adopted ASU No. 2016-01. As a result, equity securities are no longer classified as available-for-sale. Prior periods have not been recast to conform to the current presentation. Refer to Note 1 ~ Summary of Significant Accounting Policies for further details.

The Company analyzed its investment portfolio in accordance with its other-than-temporary impairment ("OTTI") review procedures and determined the Company did not need to record a credit-related OTTI loss in net income, nor recognize a non-credit related OTTI loss in other comprehensive income for the three months ended March 31, 2018 and 2017.

The Company's sources of net investment income are as follows (dollars in thousands):

|                                 | Three<br>Months<br>Ended March<br>31, |       |
|---------------------------------|---------------------------------------|-------|
|                                 | 2018                                  | 2017  |
| Debt securities                 | \$826                                 | \$601 |
| Equity securities               | 27                                    | 25    |
| Cash and short-term investments | 23                                    | 11    |
| Total investment income         | 876                                   | 637   |
| Investment expenses             | (74 )                                 | (60 ) |
| Net investment income           | \$802                                 | \$577 |

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The following table summarizes the gross realized gains and losses from sales or maturities of available-for-sale fixed maturity and equity securities (dollars in thousands):

|                                   | Three<br>Months<br>Ended<br>March 31,<br>2018 2017 |       |
|-----------------------------------|--|-------|
| Debt securities:                  |  |       |
| Gross realized gains              | \$2  | \$—   |
| Gross realized losses             | (5 )   | (7 )  |
| Total debt securities             | (3 )   | (7 )  |
| Equity securities:                |  |       |
| Gross realized gains              | 170  | 29    |
| Gross realized losses             | (6 )   | (30 ) |
| Total equity securities           | 164  | (1 )  |
| Total net realized gains (losses) | \$161  | \$(8) |

Proceeds from the sales of debt and equity securities available for sale, maturities and other redemptions (primarily the return of capital) were \$8.1 million and \$6.6 million for the three months ended March 31, 2018 and 2017, respectively.

Effective January 1, 2018, the Company adopted ASU No. 2016-01. As a result, equity securities are no longer classified as available-for-sale with unrealized gains and losses recognized in other comprehensive income; rather, all changes in fair value of equity securities are now recognized in net income. The change in fair value of equity securities included in net income for the quarter ended March 31, 2018, was a \$297 thousand loss, prior periods have not been recast for the adoption of this guidance.

The table below summarizes the amortized cost and fair value of available-for-sale debt securities by contractual maturity at March 31, 2018. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties (dollars in thousands):

|  | Amortized<br>Cost | Estimated<br>Fair<br>Value |
|--|-------------------|----------------------------|
| Due in one year or less                | \$ 13,283         | \$ 13,258                  |
| Due after one year through five years  | 36,167            | 35,701                     |
| Due after five years through ten years | 12,271            | 12,011                     |
| Due after ten years                    | 9,649             | 9,507                      |
| Securities with contractual maturities | 71,370            | 70,477                     |
| Asset-backed securities                | 25,331            | 25,258                     |
| Mortgage-backed securities             | 33,981            | 32,761                     |
| Commercial mortgage-backed securities  | 3,935             | 3,850                      |
| Collateralized mortgage obligations    | 2,408             | 2,365                      |
| Total debt securities                  | \$ 137,025        | \$ 134,711                 |

At March 31, 2018 and December 31, 2017, the Insurance Company Subsidiaries had an aggregate of \$7.8 million and \$8.2 million, respectively, on deposit in trust accounts to meet the deposit requirements of various state insurance departments. At March 31, 2018 and December 31, 2017, the Company had \$29.4 million and \$18.4 million, respectively, held in trust accounts to meet collateral requirements with other third-party insurers, relating to various fronting arrangements. There are withdrawal and other restrictions on these deposits, including the type of investments

that may be held, however, the Company may generally invest in high-grade bonds and short-term investments and earn interest on the funds.

### 3. Fair Value Measurements

The Company's financial instruments include assets and liabilities carried at fair value, as well as assets and liabilities carried at cost or amortized cost but disclosed at fair value in these consolidated financial statements. Fair value is defined as the price that would be received for an asset or paid to transfer a liability in the principally most advantageous market for the asset or liability in an orderly transaction between market participants. In determining fair value, the Company applies the market approach, which uses prices and other relevant data based on market transactions involving identical or comparable

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assets and liabilities. The inputs to valuation techniques used to measure fair value are prioritized into a three-level hierarchy. The hierarchy gives the highest priority to quoted prices from sources independent of the reporting entity (“observable inputs”) and the lowest priority to prices determined by the reporting entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (“unobservable inputs”). The fair value hierarchy is as follows:

Level 1—Valuations that are based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2—Valuations that are based on observable inputs (other than Level 1 prices) such as quoted prices for similar assets or liabilities at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3—Unobservable inputs that are supported by little or no market activity. The unobservable inputs represent the Company’s best assumption of how market participants would price the assets or liabilities.

The following tables present the Company’s assets and liabilities measured at fair value on a recurring basis, classified by the valuation hierarchy as of March 31, 2018 and December 31, 2017 (dollars in thousands):

|   | March 31, 2018<br>Fair Value Measurements Using |   |   |  |
|---|---|---|---|--|
|   | Total   | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Assets:   |   |   |   |  |
| Debt Securities:                                    |   |   |   |  |
| U.S. Government                                     | \$15,678  | \$—   | \$15,678  | \$—  |
| State and local government                          | 16,552  | —   | 16,552  | —  |
| Corporate debt                                      | 38,247  | —   | 38,247  | —  |
| Asset-backed securities                             | 25,258  | —   | 25,258  | —  |
| Mortgage-backed securities                          | 32,761  | —   | 32,761  | —  |
| Commercial mortgage-backed securities               | 3,850   | —   | 3,850   | —  |
| Collateralized mortgage obligations                 | 2,365   | —   | 2,365   | —  |
| Total debt securities                               | 134,711   | —   | 134,711   | —  |
| Equity Securities                                   | 5,327   | 5,082   | 245   | —  |
| Short-term investments                              | 2,505   | 2,505   | —   | —  |
| Total marketable investments measured at fair value | \$142,543                                       | \$7,587   | \$134,956   | \$—  |
| Investments measured at NAV:                        |   |   |   |  |
| Investment in limited partnership                   | \$4,098   |   |   |  |
| Total investments measured at NAV                   | \$4,098   |   |   |  |
| Total assets measured at fair value                 | 146,641   |   |   |  |

Liabilities:

|  |          |      |      |           |
|--|----------|------|------|-----------|
| Debt *                                   | \$29,804 | \$ — | \$ — | \$ 29,804 |
| Total Liabilities measured at fair value | \$29,804 | \$ — | \$ — | \$ 29,804 |

\* Carried at cost or amortized cost on the consolidated balance sheet

CONIFER HOLDINGS, INC. AND SUBSIDIARIES  
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|  | December 31, 2017             |  |   |  |
|--|-------------------------------|--|---|--|
|  | Fair Value Measurements Using |  |   |  |
|  | Total                         | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Assets:                                  |                               |  |   |  |
| Debt Securities:                         |                               |  |   |  |
| U.S. Government                          | \$17,090                      | \$—  | \$ 17,090   | \$ —   |
| State and local government               | 17,503                        | —  | 17,503  | —  |
| Corporate debt                           | 38,908                        | —  | 38,908  | —  |
| Asset-backed securities                  | 23,540                        | —  | 23,540  | —  |
| Mortgage-backed securities               | 33,458                        | —  | 33,458  | —  |
| Commercial mortgage-backed securities    | 3,491                         | —  | 3,491   | —  |
| Collateralized mortgage obligations      | 2,546                         | —  | 2,546   | —  |
| Total debt securities                    | 136,536                       | —  | 136,536   | —  |
| Equity Securities                        | 5,627                         | 5,381  | 246   | —  |
| Short-term investments                   | 11,427                        | 8,429  | 2,998   | —  |
| Total assets measured at fair value      | \$153,590                     | \$13,810   | \$ 139,780  | \$ —   |
| Investments measured at NAV:             |                               |  |   |  |
| Investment in limited partnership        | \$4,060                       |  |   |  |
| Total investments measured at NAV        | \$4,060                       |  |   |  |
| Total assets measured at fair value      | \$157,650                     |  |   |  |
| Liabilities:                             |                               |  |   |  |
| Debt *                                   | \$29,888                      | \$—  | \$ —  | \$ 29,888  |
| Total Liabilities measured at fair value | \$29,888                      | \$—  | \$ —  | \$ 29,888  |

\* Carried at cost or amortized cost on the consolidated balance sheet

Level 1 investments consist of equity securities traded in an active exchange market. The Company uses unadjusted quoted prices for identical instruments to measure fair value. Level 1 also includes money market funds and other interest-bearing deposits at banks, which are reported as short-term investments. The fair value measurements that were based on Level 1 inputs comprise 5.2% of the fair value of the total investment portfolio as of March 31, 2018. Level 2 investments include debt securities, which consist of U.S. government agency securities, state and local municipal bonds (including those held as restricted securities), corporate debt securities, mortgage-backed and asset-backed securities. The fair value of securities included in the Level 2 category were based on the market values obtained from a third party pricing service that were evaluated using pricing models that vary by asset class and incorporate available trade, bid and other observable market information. The third party pricing service monitors market indicators, as well as industry and economic events. The fair value measurements that were based on Level 2

inputs comprise 92.0% of the fair value of the total investment portfolio as of March 31, 2018.

The Company obtains pricing for each security from independent pricing services, investment managers or consultants to assist in determining fair value for its Level 2 investments. To validate that these quoted prices are reasonable estimates of fair value, the Company performs various quantitative and qualitative procedures, such as (i) evaluation of the underlying methodologies, (ii) analysis of recent sales activity, (iii) analytical review of our fair values against current market prices and (iv) comparison of the pricing services' fair value to other pricing services' fair value for the same investment. No markets for the investments were determined to be inactive at period-ends. Based on these procedures, the Company did not adjust the prices or quotes provided from independent pricing services, investment managers or consultants.

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As of March 31, 2018, Level 3 is entirely comprised of the Company's subordinated debt. In determining the fair value of the subordinated debt outstanding at March 31, 2018, the security attributes (issue date, maturity, coupon, calls, etc.) and market rates on September 29, 2017 (the date of issuance) were fed into a valuation model. A lognormal trinomial interest rate lattice was created within the model to compute the option adjusted spread ("OAS") which is the amount, in basis points, of interest rate required to be paid under the debt agreement over the risk-free U.S. Treasury rates. The OAS was then fed back into the model along with the March 31, 2018, U.S. Treasury rates. A new lattice was generated and the fair value was computed from the OAS. There were no changes in assumptions of credit risk from the issuance date.

The Company's policy on recognizing transfers between hierarchy levels is applied at the end of each reporting period. There were no transfers between Levels 1, 2 and 3 for the three months ended March 31, 2018 and 2017, respectively.

#### 4. Deferred Policy Acquisition Costs

The Company defers costs incurred which are incremental and directly related to the successful acquisition of new or renewal insurance business, net of corresponding amounts of ceded reinsurance commissions. Net deferred policy acquisition costs are amortized and charged to expense in proportion to premium earned over the estimated policy term. The Company anticipates that its deferred policy acquisition costs will be fully recoverable and there were no premium deficiencies for the three months ended March 31, 2018 and 2017. The activity in deferred policy acquisition costs, net of reinsurance transactions, is as follows (dollars in thousands):

|  | Three Months<br>Ended<br>March 31, |           |
|--|------------------------------------|-----------|
|  | 2018                               | 2017      |
| Balance at beginning of period           | \$ 12,781                          | \$ 13,290 |
| Deferred policy acquisition costs        | 5,782                              | 6,138     |
| Amortization of policy acquisition costs | (6,513 )                           | (6,472 )  |
| Net change                               | (731 )                             | (334 )    |
| Balance at end of period                 | \$ 12,050                          | \$ 12,956 |

#### 5. Unpaid Losses and Loss Adjustment Expenses

The Company establishes reserves for unpaid losses and loss adjustment expenses ("LAE") which represent the estimated ultimate cost of all losses incurred that were both reported and unreported (i.e., incurred but not yet reported losses; or "IBNR") and LAE incurred that remain unpaid at the balance sheet date. The Company's reserving process takes into account known facts and interpretations of circumstances and factors including the Company's experience with similar cases, actual claims paid, historical trends involving claim payment patterns and pending levels of unpaid claims, loss management programs, product mix and contractual terms, changes in law and regulation, judicial decisions, and economic conditions. In the normal course of business, the Company may also supplement its claims processes by utilizing third party adjusters, appraisers, engineers, inspectors, and other professionals and information sources to assess and settle catastrophe and non-catastrophe related claims. The effects of inflation are implicitly considered in the reserving process.

Reserves are estimates of unpaid portions of losses that have occurred, including IBNR losses; therefore the establishment of appropriate reserves is an inherently uncertain and complex process. The ultimate cost of losses may vary materially from recorded amounts, which are based on management's best estimates. The highest degree of

uncertainty is associated with reserves for losses incurred in the current reporting period as it contains the greatest proportion of losses that have not been reported or settled. The Company regularly updates its reserve estimates as new information becomes available and as events unfold that may affect the resolution of unsettled claims. Changes in reserve estimates, which may be material, are reported in the results of operations in the period such changes are determined to be needed and recorded.

Management believes that the reserve for losses and LAE, net of reinsurance recoverables, is appropriately established in the aggregate and adequate to cover the ultimate net cost of reported and unreported claims arising from losses which had

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occurred by the date of the consolidated financial statements based on available facts and in accordance with applicable laws and regulations.

The table below provides the changes in the reserves for losses and LAE, net of reinsurance recoverables, for the periods indicated as follows (dollars in thousands):

|  | Three Months<br>Ended<br>March 31, |          |
|--|------------------------------------|----------|
|  | 2018                               | 2017     |
| Gross reserves - beginning of period               | \$87,896                           | \$54,651 |
| Less: reinsurance recoverables on unpaid losses    | 20,066                             | 6,658    |
| Net reserves - beginning of period                 | 67,830                             | 47,993   |
| Add: incurred losses and LAE, net of reinsurance:  |                                    |          |
| Current period                                     | 13,344                             | 12,654   |
| Prior period                                       | (16 )                              | 3,079    |
| Total net incurred losses and LAE                  | 13,328                             | 15,733   |
| Deduct: loss and LAE payments, net of reinsurance: |                                    |          |
| Current period                                     | 1,588                              | 1,903    |
| Prior period                                       | 12,711                             | 8,813    |
| Total net loss and LAE payments                    | 14,299                             | 10,716   |
| Net reserves - end of period                       | 66,859                             | 53,010   |
| Plus: reinsurance recoverables on unpaid losses    | 20,063                             | 9,125    |
| Less: deferred gain on ADC                         | (1,431 )                           | —        |
| Gross reserves - end of period                     | \$85,491                           | \$62,135 |

On September 28, 2017, the Company entered into an adverse development cover reinsurance agreement (the "ADC") to cover loss development of up to \$17.5 million in excess of stated reserves as of June 30, 2017. The ADC provides up to \$17.5 million of reinsurance for adverse net loss reserve development for accident years 2005 through 2016. The ADC attaches when net losses exceed \$1.4 million of the \$36.6 million carried reserves at June 30, 2017, and extends to \$19.5 million in coverage up to \$57.5 million. The Company retains a 10% co-participation for any development in excess of the retention.

The Company accounts for the agreement as retroactive reinsurance. For the quarter ended March 31, 2018, the Company recorded \$1.7 million of net adverse loss development covered under this agreement, which increased the retroactive reinsurance recoverable to \$8.9 million, leaving \$8.6 million of coverage remaining on the ADC. The Company recorded the retroactive reinsurance recoverable in excess of the consideration as a deferred gain that is amortized to earnings using the interest method over the estimated claims settlement period. As of March 31, 2018, the deferred gain of \$1.4 million, net of amortization, is included in Other Liabilities on the consolidated balance sheets.

The Company's incurred losses during the three months ended March 31, 2018, included favorable prior-year reserve development of \$16,000. Excluding the effect of the ADC, the commercial lines of business reported \$104,000 of favorable prior-year development offset by \$366,000 of unfavorable development from the personal lines of business of which \$266,000 was attributable to additional 2017 losses from Hurricane Harvey. The ADC had a favorable impact of \$278,000 on prior year reserve development.

The Company's incurred losses during the three months ended March 31, 2017, included prior-year adverse reserve development of \$3.1 million. For the three months ended March 31, 2017, there was adverse development of \$1.6 million from the commercial property line, \$1.3 million from the commercial liability line of business, \$325,000 from the Florida homeowners line, and \$201,000 from the personal auto line of business. The adverse development was offset by \$456,000 of favorable development in other lines of business for the same period.

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6. Reinsurance

In the normal course of business, the Company seeks to minimize the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with reinsurers. The Company participates in reinsurance agreements in order to limit its loss exposure including protecting against catastrophe losses. The Company primarily ceded all specific commercial risks in excess of \$500,000 in both 2018 and 2017. Reinsurance does not discharge the direct insurer from liability to its policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors the concentration of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. To date, the Company has not experienced any significant difficulties in collecting reinsurance recoverables.

The Company assumes written premiums under a few fronting arrangements, most of which are net of other reinsurance arrangements. The fronting arrangements are with unaffiliated insurers who write on behalf of the Company in markets that require a higher A.M. Best rating than the Company's current rating, or where the policies are written in a state where the Company is not licensed or for other strategic reasons.

The consideration for the ADC entered into in the third quarter of 2017 was a payment of \$7.2 million, which resulted in a one-time charge to ceded premiums fully earned in the third quarter. There is a 35% contingent recovery depending on the performance of the reserves over time. No recovery is currently reflected in the financial statements. The following table presents the effects of such reinsurance and assumption transactions on premiums and losses and LAE (dollars in thousands). The 2018 ceded written and earned premium amounts include \$367,000 of reinsurance reinstatement costs relating to Hurricane Irma.

|                      | Three Months<br>Ended<br>March 31,<br>2018      2017 |          |
|----------------------|--|----------|
| Written premiums:    |  |          |
| Direct               | \$18,855   | \$20,900 |
| Assumed              | 4,882  | 5,574    |
| Ceded                | (3,892 )   | (4,150 ) |
| Net written premiums | \$19,845   | \$22,324 |
| Earned premiums:     |  |          |
| Direct               | \$21,224   | \$22,060 |
| Assumed              | 6,500  | 6,204    |
| Ceded                | (3,924 )   | (4,124 ) |
| Net earned premiums  | \$23,800   | \$24,140 |
| Losses and LAE:      |  |          |
| Direct               | \$12,958   | \$16,033 |
| Assumed              | 3,554  | 3,875    |
| Ceded                | (3,184 )   | (4,175 ) |
| Net Losses and LAE   | \$13,328   | \$15,733 |

7. Debt

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On September 29, 2017, the Company executed \$30.0 million in private placement subordinated notes (the "Notes"). The Notes have a maturity date of September 29, 2032, bear interest, payable quarterly at a fixed annual rate of 8.0%, and allow for up to four quarterly interest deferrals. On the fifth and tenth anniversary of the notes, the interest rate resets to 1,250 basis points and 1,500 basis points, respectively, above the 5-year mid-swap rate. The Notes include an issuer call option at par from July 31, 2018, through October 31, 2018, and at 105% of par any time after September 29, 2020.

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The carrying value of the Notes is offset by \$957,000 of debt issuance costs that will be amortized through interest expense over the life of the loan. The carrying value of the Notes was \$29.0 million at March 31, 2018 and December 31, 2017, respectively.

The Notes replaced the Company's senior debt facility ("Credit Facility"), which was terminated upon execution of the Notes. The Credit Facility was comprised of three notes: a \$17.5 million revolving line of credit ("Revolver") which commenced in October 2013; a \$5.0 million five-year term note ("Term Note") which commenced in October 2013; and a \$7.5 million five-year term note which commenced in September 2014 ("2014 Term Note").

The proceeds from the Notes were utilized, in part, to repay the outstanding balances on the Credit Facility, which were \$16.4 million in total.

The Notes contain various restrictive covenants that relate to the Company's tangible net worth, fixed-charge coverage ratios, dividend paying capacity, reinsurance retentions, and risk-based capital ratios. At March 31, 2018, the Company was in compliance with all of its subordinated debt financial covenants.

#### 8. Shareholders' Equity

In September 2017, the Company issued \$5.0 million of common equity through a private placement for 800,000 shares priced at \$6.25 per share. The participants in the private placement consisted mainly of members of the Company's management team and insiders, including Chairman and CEO James Petcoff. The Company used the proceeds to strengthen its balance sheet through contributions to the Insurance Company Subsidiaries to support their future growth, and to cover the cost of the ADC and reserve strengthening.

On February 25, 2016, the Company's Board of Directors authorized a stock repurchase program, under which the Company may repurchase up to \$2.1 million of its outstanding common stock. Under this program, Management was authorized to repurchase shares at prevailing market prices through open market purchases, privately negotiated transactions, block purchases or otherwise in accordance with applicable federal securities laws, including Rule 10b5-1 and 10b-18 of the Securities Exchange Act of 1934, as amended. The actual timing, number and value of shares repurchased under the program was determined by Management in its discretion and depends on a number of factors, including the market price of the Company's stock, general market conditions, and other factors. For the three months ended March 31, 2018 and 2017, the Company had not repurchased any shares of stock. Repurchased shares remain authorized but not issued or outstanding, and are available to be reissued in the future.

As of March 31, 2018 and December 31, 2017, the Company had 8,520,328 issued and outstanding shares of common stock, respectively.

Holders of common stock are entitled to one vote per share and to receive dividends only when and if declared by the board of directors. The holders have no preemptive, conversion or subscription rights.

#### 9. Other Comprehensive Income (Loss)

The following table presents changes in accumulated other comprehensive income (loss) for unrealized gains and losses on available-for-sale securities (dollars in thousands):

|   | Three Months<br>Ended<br>March 31, |            |
|---|------------------------------------|------------|
|   | 2018                               | 2017       |
| Balance at beginning of period  | \$ (363 )                          | \$ (1,080) |
| Other comprehensive income (loss) before reclassifications                    | (1,846 )                           | 385        |
| Less: amounts reclassified from accumulated other comprehensive income (loss) | —                                  | 51         |
| Plus: cumulative effect of adoption of ASU No. 2016-01, net of taxes          | (556 )                             | —          |
| Plus: cumulative effect of adoption of ASU No. 2018-02, net of taxes          | 77                                 |            |

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|  |           |          |
|--|-----------|----------|
| Net current period other comprehensive income (loss) | (2,325 )  | 334      |
| Balance at end of period                             | \$(2,688) | \$(746 ) |

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### 10. Earnings Per Share

Basic and diluted earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. The following table presents the calculation of basic and diluted earnings (loss) per common share, as follows (dollars in thousands, except per share amounts):

|  | Three Months<br>Ended<br>March 31,<br>2018 2017 |            |
|--|---|------------|
| Net income (loss)                                  | \$213   | \$(1,798 ) |
| Weighted average common shares, basic and diluted* | 8,520,328                                       | 8,333,069  |

Earnings (loss) per common share, basic and diluted \$0.02 \$(0.24 )

\* The 304,000 and 413,000 nonvested shares of the restricted stock units were anti-dilutive as of March 31, 2018 and 2017, respectively. Therefore, the basic and diluted weighted average common shares are equal for the three months ended March 31, 2018 and 2017, respectively.

### 11. Stock-based Compensation

In 2015, the Company issued 390,352 restricted stock units "RSUs" to executive officers and other employees to be settled in shares of common stock. The total RSUs were valued at \$4.1 million on the date of grant. In 2016, the Company issued 111,281 RSUs to executive officers and other employees valued at \$909,000 on the date of grant. The following summarizes our RSU activity (units in thousands):

|                                  | Number<br>of Units | Weighted<br>Average<br>Grant-Date<br>Fair Value |
|----------------------------------|--------------------|---|
| Outstanding at December 31, 2016 | 416                | \$ 9.87   |
| Units forfeited                  | (3 )               | 9.01  |
| Outstanding at March 31, 2017    | 413                | 9.88  |
| Units vested                     | (95 )              | 9.97  |
| Units forfeited                  | (11 )              | 10.19   |
| Outstanding at December 31, 2017 | 307                | 9.84  |
| Units forfeited                  | (3 )               | 9.91  |
| Outstanding at March 31, 2018    | 304                | \$ 9.84   |

The Company recorded \$231,000 and \$243,000 of compensation expense related to the RSUs for the three months ended March 31, 2018 and 2017, respectively. The total compensation cost related to the non-vested portion of the restricted stock units which has not been recognized as of March 31, 2018, was \$2.7 million.

### 12. Commitments and Contingencies

Legal proceedings

The Company and its subsidiaries are subject at times to various claims, lawsuits and proceedings relating principally to alleged errors or omissions in the placement of insurance, claims administration, and other business transactions arising in the ordinary course of business. Where appropriate, the Company vigorously defends such claims, lawsuits and proceedings. Some of these claims, lawsuits and proceedings seek damages, including consequential, exemplary or punitive damages, in amounts that could, if awarded, be significant. Most of the claims, lawsuits and proceedings arising in the ordinary course of business

CONIFER HOLDINGS, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Unaudited)

are related to the insurance policy issued. On the basis of current information, the Company does not believe that there is a reasonable possibility that any material loss exceeding amounts already accrued, if any, will result from any of the claims, lawsuits and proceedings to which the Company is subject, either individually, or in the aggregate.

13. Segment Information

The Company is engaged in the sale of property and casualty insurance products and has organized its business model around two classes of insurance businesses: commercial and personal lines. Within these two insurance businesses, the Company offers various insurance products. Such insurance businesses are engaged in underwriting and marketing insurance coverages, and administering claims processing for such policies.

The Company defines its operating segments as components of the business where separate financial information is available and used by the chief operating decision-making group in deciding how to allocate resources to its segments and in assessing its performance. In assessing performance of its operating segments, the Company's chief operating decisionmaking group, comprised of key senior executives, reviews a number of financial measures including gross written premiums, net earned premiums and losses and LAE, net of reinsurance recoveries. The primary measure used for making decisions about resources to be allocated to an operating segment and assessing its performance is segment underwriting gain or loss which is defined as segment revenues, consisting of net earned premiums and other income, less segment expenses, consisting of losses and LAE, policy acquisition costs and operating expenses of the operating segments. Operating expenses primarily include compensation and related benefits for underwriting personnel, policy issuance and claims systems, rent and utilities. The Company markets, distributes and sells its insurance products through its own insurance agencies and a network of independent agents. All of the Company's insurance activities are conducted in the United States with a concentration of activity in Florida, Michigan, Texas and Pennsylvania. For the three months ended March 31, 2018 and 2017, gross written premiums attributable to these four states were 60% and 58% of the Company's total gross written premiums.

In addition to the reportable operating segments, the Company maintains a Corporate and Other category to reconcile segment results to the consolidated totals. The Corporate and Other category includes: (i) corporate operating expenses such as salaries and related benefits of the Company's executive management team, and other corporate headquarters expenses, (ii) interest expense on the Company's debt obligations; and (iii) all investment income activity. All investment income activity is reported within net investment income and net realized investment gains on the consolidated statements of operations. The Company's assets on the consolidated balance sheet are not allocated to the reportable segments.

CONIFER HOLDINGS, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Unaudited)

| Three Months Ended March 31, 2018                                   | Commercial<br>Lines | Personal<br>Lines | Corporate<br>& Other | Total       |
|---|---------------------|-------------------|----------------------|-------------|
| Gross written premiums  | \$ 21,788           | \$ 1,949          | \$ —                 | \$ 23,737   |
| Net written premiums  | \$ 19,422           | \$ 423            | \$ —                 | \$ 19,845   |
| Net earned premiums   | \$ 20,127           | \$ 3,673          | \$ —                 | \$ 23,800   |
| Other income  | 143                 | 180               | 34                   | 357         |
| Segment revenue   | 20,270              | 3,853             | 34                   | 24,157      |
| Losses and loss adjustment expenses, net                            | 10,200              | 3,128             | —                    | 13,328      |
| Policy acquisition costs  | 5,442               | 1,071             | —                    | 6,513       |
| Operating expenses  | 3,498               | 370               | 319                  | 4,187       |
| Segment expenses  | 19,140              | 4,569             | 319                  | 24,028      |
| Segment underwriting gain (loss)                                    | \$ 1,130            | \$ (716 )         | (285 )               | 129         |
| Net investment income   |                     |                   | 802                  | 802         |
| Net realized investment gains                                       |                     |                   | 161                  | 161         |
| Change in fair value of equity securities                           |                     |                   | (297 )               | (297 )      |
| Interest expense  |                     |                   | (619 )               | (619 )      |
| Income (loss) before equity earnings of affiliates and income taxes |                     |                   | \$ (238 )            | \$ 176      |
| Three Months Ended March 31, 2017                                   | Commercial<br>Lines | Personal<br>Lines | Corporate<br>& Other | Total       |
| Gross written premiums  | \$ 21,644           | \$ 4,830          | \$ —                 | \$ 26,474   |
| Net written premiums  | \$ 19,479           | \$ 2,845          | \$ —                 | \$ 22,324   |
| Net earned premiums   | \$ 19,689           | \$ 4,451          | \$ —                 | \$ 24,140   |
| Other income  | 164                 | 151               | 39                   | 354         |
| Segment revenue   | 19,853              | 4,602             | 39                   | 24,494      |
| Losses and loss adjustment expenses, net                            | 12,468              | 3,265             | —                    | 15,733      |
| Policy acquisition costs  | 5,022               | 1,450             | —                    | 6,472       |
| Operating expenses  | 2,472               | 569               | 1,489                | 4,530       |
| Segment expenses  | 19,962              | 5,284             | 1,489                | 26,735      |
| Segment underwriting gain (loss)                                    | \$ (109 )           | \$ (682 )         | (1,450 )             | (2,241 )    |
| Net investment income   |                     |                   | 577                  | 577         |
| Net realized investment losses                                      |                     |                   | (8 )                 | (8 )        |
| Interest expense  |                     |                   | (224 )               | (224 )      |
| Income (loss) before equity earnings of affiliates and income taxes |                     |                   | \$ (1,105 )          | \$ (1,896 ) |

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the Periods Ended March 31, 2018 and 2017

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Consolidated Financial Statements (Unaudited), related notes and other financial information appearing elsewhere in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K, filed on March 15, 2018 with the U. S. Securities and Exchange Commission.

### Forward-Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q, which are not statements of historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, as Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements give current expectations or forecasts of future events or our future financial or operating performance. Words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "seek" and similar terms and phrases, or the negative thereof, may be used to identify forward-looking statements.

The forward-looking statements contained in this report are based on Management's good-faith belief and reasonable judgment based on current information. The forward-looking statements are qualified by important factors, risks and uncertainties, many of which are beyond our control, that could cause our actual results to differ materially from those in the forward-looking statements, including those described in our Form 10-K ("Item 1A Risk Factors") filed with the SEC on March 15, 2018 and subsequent reports filed with or furnished to the SEC. Any forward-looking statement made by us in this report speaks only as of the date hereof or as of the date specified herein. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by any applicable laws or regulations.

### Business Overview

We are an insurance holding company that markets and services our product offerings through specialty commercial and specialty personal insurance business lines. Our growth has been significant since our founding in 2009. Currently, we are authorized to write insurance as an excess and surplus lines carrier in 44 states, including the District of Columbia. We are also licensed to write insurance as an admitted carrier in 42 states, including the District of Columbia, and we offer our insurance products in all 50 states.

Our revenues are primarily derived from premiums earned from our insurance operations. We also generate other revenues through investment income and other income which mainly consists of installment fees and policy issuance fees generally related to the policies we write.

Our expenses consist primarily of losses and loss adjustment expenses, agents' commissions, and other underwriting and administrative expenses. We organize our operations in two insurance businesses: commercial insurance lines and personal insurance lines.

Through our commercial insurance product lines, we offer coverage for both commercial property and commercial liability exposures. We also offer coverage for commercial automobiles and workers' compensation. Our insurance policies are sold to targeted small and mid-sized businesses on a single or multiple-coverage basis.

Through our personal insurance product lines, we offer homeowners insurance and dwelling fire insurance policies to individuals in several states. Our specialty homeowners insurance product line is primarily comprised of either wind-exposed homeowners insurance providing hurricane and wind coverage to underserved homeowners in Texas, Hawaii and Florida or low-value dwelling insurance tailored for owners of lower valued homes, which we offer in Illinois, Indiana, Louisiana and Texas. Due to recent Florida-based industry events, we have been de-emphasizing our Florida homeowners' business and reducing our exposures in that state, as well as other wind-exposed states.

### Recent Developments

In September 2017, we entered into several strategic transactions designed to strengthen our financial position and accelerate our goals of returning to profitability in the coming quarters. The strategic transactions include the

following:

- We strengthened our reserve position through an agreement with a reinsurer that provides adverse loss development cover (the "ADC") of up to \$17.5 million in excess of stated reserves as of June 30, 2017.

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We completed \$30.0 million in private placement subordinated notes providing long-term flexibility and less restrictive terms.

We repaid our outstanding Senior Credit Facility of \$16.4 million.

We issued \$5.0 million of additional common equity through a private placement.

#### Reinsurance Agreement

The ADC, effective September 28, 2017, provides up to \$17.5 million of reinsurance for adverse net loss reserve development for accident years 2005 through 2016. We retain sole responsibility for all claims activities, which is important to our ongoing value proposition to all of our customers.

The agreement attaches when net losses exceed \$1.4 million of the \$36.6 million carried reserves at June 30, 2017, and extends to \$19.5 million in coverage up to \$57.5 million (inclusive of a 10% co-participation). The consideration for this agreement was \$7.2 million. There is a 35% contingent recovery depending on the performance of the reserves over time.

The agreement resulted in a one-time charge to ceded premiums of \$7.2 million, or approximately \$0.84 per common share.

#### Debt Re-financing

We completed a private placement of \$30.0 million in aggregate principal amount of subordinated notes. The subordinated notes mature on September 29, 2032, bear interest, payable quarterly at a fixed annual rate of 8.0%, and allow for up to four quarterly interest deferrals. On the fifth and tenth anniversary of the notes, the interest rate resets to 1,250 basis points and 1,500 basis points, respectively, above the 5-year mid-swap rate. The notes include an issuer call option at par from July 31, 2018, through October 31, 2018, and at 105% of par any time after September 29, 2020.

We utilized the proceeds to repay and terminate the \$16.4 million outstanding balance on our \$30.0 million senior credit facility that consisted of two term notes totaling \$12.5 million and a \$17.5 million revolver.

We intend to use additional proceeds from the financing to support general working capital purposes and finance growth strategies.

#### Management Equity Infusion

In conjunction with the ADC and the re-financing, we also issued \$5 million of common equity through a private placement at a price of \$6.25 per share. Our common stock closing market price on the Nasdaq Stock Market on Thursday, September 28, 2017, was \$6.05 per share. We will use the proceeds to strengthen our balance sheet.

The participants in the private placement consisted mainly of members of our management team and insiders, including our Chairman and CEO, James Petcoff.

#### Catastrophe Losses from Hurricane Harvey and Hurricane Irma

We have recorded pre-tax losses and reinsurance reinstatement costs on an inception to date basis of \$6.8 million, net of expected reinsurance recoveries, for catastrophe losses related to two category 4 hurricanes, Hurricane Harvey in Texas and Hurricane Irma in Florida. The aggregate impact to the first quarter ended March 31, 2018 was \$633,000 in losses and ceded premium expenses.

#### Critical Accounting Policies and Estimates

In certain circumstances, we are required to make estimates and assumptions that affect amounts reported in our consolidated financial statements and related footnotes. We evaluate these estimates and assumptions periodically on an on-going basis based on a variety of factors. There can be no assurance, however, that actual results will not be materially different than our estimates and assumptions, and that reported results of operation will not be affected by accounting adjustments needed to reflect changes in these estimates and assumptions. During the three months ended March 31, 2018, there were no material changes to our critical accounting policies and estimates, which are disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K filed with the SEC on March 15, 2018.

#### Executive Overview

The Company reported net income of \$0.2 million, or \$0.02 per share, for the three months ended March 31, 2018, compared to a net loss of \$1.8 million, or \$0.24 per share, for the same period in 2017.

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Adjusted operating income, a non-GAAP measure, was \$1.8 million, or \$0.21 per share, for the three months ended March 31, 2018, compared to an adjusted operating loss of \$1.8 million, or \$0.24 per share, for the same period in 2017.

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Our combined ratio was 99.5% for the three months ended March 31, 2018, compared to 109.1% for the same period in 2017. This was primarily due to a 9.0 percentage point improvement in the loss ratio, as well as a 0.6 percentage point reduction in the expense ratio compared to the prior year period.

Our net earned premium was down 1.4% for the three months ended months ended March 31, 2018, due to a combination of the expansion of our commercial lines, which was up 2.2% year over year, and the repositioning of our personal lines, which was down (17.5)% compared to the same period in the prior year.

#### Results of Operations For The Three Months Ended March 31, 2018 and 2017

The following table summarizes our operating results for the periods indicated (dollars in thousands):

##### Summary of Operating Results

|  | Three Months Ended<br>March 31, |           | \$<br>Change | %<br>Change |
|--|---------------------------------|-----------|--------------|-------------|
|  | 2018                            | 2017      |              |             |
| Gross written premiums   | \$23,737                        | \$26,474  | \$(2,737)    | (10.3)%     |
| Net written premiums   | \$19,845                        | \$22,324  | \$(2,479)    | (11.1)%     |
| Net earned premiums  | \$23,800                        | \$24,140  | \$(340)      | (1.4)%      |
| Other income   | 357                             | 354       | 3            | 0.8%        |
| Losses and loss adjustment expenses, net                           | 13,328                          | 15,733    | (2,405)      | (15.3)%     |
| Policy acquisition costs   | 6,513                           | 6,472     | 41           | 0.6%        |
| Operating expenses   | 4,187                           | 4,530     | (343)        | (7.6)%      |
| Underwriting gain (loss)   | 129                             | (2,241)   | 2,370        | *           |
| Net investment income  | 802                             | 577       | 225          | 39.0%       |
| Net realized investment gains                                      | 161                             | (8)       | 169          | *           |
| Change in fair value of equity securities (1)                      | (297)                           | —         | (297)        | *           |
| Interest expense   | 619                             | 224       | 395          | 176.3%      |
| Income (loss) before equity earnings in affiliate and income taxes | 176                             | (1,896)   | 2,072        | *           |
| Equity earnings (losses) of affiliates, net of tax                 | 55                              | 104       | (49)         | (47.1)%     |
| Income tax expense (benefit)                                       | 18                              | 6         | 12           | 200.0%      |
| Net income (loss)  | \$213                           | \$(1,798) | \$2,011      | *           |
| Book value per common share outstanding                            | \$6.04                          | \$8.72    |              |             |
| Underwriting Ratios:   |                                 |           |              |             |
| Loss ratio (2)   | 55.2                            | % 64.2    | %            |             |
| Expense ratio (3)  | 44.3                            | % 44.9    | %            |             |
| Combined ratio (4)   | 99.5                            | % 109.1   | %            |             |

Effective January 1, 2018, the Company adopted ASU No. 2016-01. As a result, equity securities are no longer (1) classified as available-for-sale. Prior periods have not been recast to conform to the current presentation. Refer to Note 1 ~ Summary of Significant Accounting Policies for further details.

(2) The loss ratio is the ratio, expressed as a percentage, of net losses and loss adjustment expenses to net earned premiums and other income.

(3) The expense ratio is the ratio, expressed as a percentage, of policy acquisition costs and operating expenses to net earned premiums and other income.

(4) The combined ratio is the sum of the loss ratio and the expense ratio. A combined ratio under 100% indicates an underwriting profit. A combined ratio over 100% indicates an underwriting loss.



\*Percentage change is not meaningful

#### Premiums

Earned premiums are earned ratably over the term of the policy, whereas written premiums are reflected on the effective date of the policy. Almost all commercial lines and homeowners products have annual policies, under which premiums are earned evenly over one year. The resulting net earned premiums are impacted by the gross and ceded written premiums, earned ratably over time.

Our premiums are presented below for the three months ended March 31, 2018 and 2017 (dollars in thousands):

#### Summary of Premium Revenue

|                               | Three Months<br>Ended March 31, |          | \$<br>Change | %<br>Change |
|-------------------------------|---------------------------------|----------|--------------|-------------|
|                               | 2018                            | 2017     |              |             |
| <b>Gross written premiums</b> |                                 |          |              |             |
| Commercial lines              | \$21,788                        | \$21,644 | \$144        | 0.7 %       |
| Personal lines                | 1,949                           | 4,830    | (2,881 )     | (59.6)%     |
| Total                         | \$23,737                        | \$26,474 | \$(2,737)    | (10.3)%     |
| <b>Net written premiums</b>   |                                 |          |              |             |
| Commercial lines              | \$19,422                        | \$19,479 | \$(57 )      | (0.3 )%     |
| Personal lines                | 423                             | 2,845    | (2,422 )     | (85.1)%     |
| Total                         | \$19,845                        | \$22,324 | \$(2,479)    | (11.1)%     |
| <b>Net Earned premiums</b>    |                                 |          |              |             |
| Commercial lines              | \$20,127                        | \$19,689 | \$438        | 2.2 %       |
| Personal lines                | 3,673                           | 4,451    | (778 )       | (17.5)%     |
| Total                         | \$23,800                        | \$24,140 | \$(340 )     | (1.4 )%     |

Gross written premiums decreased \$2.7 million, or 10.3%, to \$23.7 million for the three months ended March 31, 2018, as compared to \$26.5 million for the same period in 2017.

Commercial lines gross written premiums increased \$144,000, or 0.7%, to \$21.8 million in the first quarter of 2018, as compared to \$21.6 million for the first quarter of 2017. The increased gross written premiums were mainly due to a 2.8% increase in small business programs compared to the same quarter in the prior year.

Personal lines gross written premiums decreased \$2.9 million, or 59.6%, to \$1.9 million in the first quarter of 2018, as compared to \$4.8 million for the same period in 2017. The decrease was the result of Management's strategic decision to decrease the Florida homeowners business. The Florida homeowners business decreased by 51% for the three months ended March 31, 2018, compared to the same period in 2017. The decrease was the result of Management's strategic decision to deemphasize the Company's Florida homeowners business and other wind-exposed business in Texas and Hawaii.

Net written premiums decreased \$2.5 million, or 11.1%, to \$19.8 million for the three months ended March 31, 2018, as compared to \$22.3 million for the same period in 2017. This decrease is primarily related to the strategic objectives in the personal lines noted above that began at the end of 2016 and into 2017.

#### Other income

Other income consists primarily of fees charged to policyholders by the Company for services outside of the premium charge, such as installment billings and policy issuance costs. Commission income is also received by the Company's insurance agencies for writing policies for third party insurance companies. Other income for the three months ended March 31, 2018 increased \$3,000, or 0.8%, to \$357,000 as compared to \$354,000 for the same period in 2017.

#### Losses and Loss Adjustment Expenses

The tables below detail our losses and loss adjustment expenses ("LAE") and loss ratios for the three months ended March 31, 2018 and 2017 (dollars in thousands).



| Three Months Ended March 31, 2018   | Commercial<br>Lines | Personal<br>Lines | Total     |
|-------------------------------------|---------------------|-------------------|-----------|
| Accident year net losses and LAE    | \$ 11,109           | \$ 2,235          | \$ 13,344 |
| Net (favorable) adverse development | (909 )              | 893               | (16 )     |
| Calendar year net losses and LAE    | \$ 10,200           | \$ 3,128          | \$ 13,328 |
|                                     |                     |                   |           |
| Accident year loss ratio            | 54.8                | % 58.0            | % 55.2    |
| Net (favorable) adverse development | (4.5 )              | )% 23.2           | % —       |
| Calendar year loss ratio            | 50.3                | % 81.2            | % 55.2    |
|                                     |                     |                   |           |
| Three Months Ended March 31, 2017   | Commercial<br>Lines | Personal<br>Lines | Total     |
| Accident year net losses and LAE    | \$ 9,634            | \$ 3,020          | \$ 12,654 |
| Net (favorable) adverse development | 2,834               | 245               | 3,079     |
| Calendar year net losses and LAE    | \$ 12,468           | \$ 3,265          | \$ 15,733 |
|                                     |                     |                   |           |
| Accident year loss ratio            | 48.5                | % 65.6            | % 51.7    |
| Net (favorable) adverse development | 14.3                | % 5.3             | % 12.5    |
| Calendar year loss ratio            | 62.8                | % 70.9            | % 64.2    |

Net losses and LAE decreased by \$2.4 million, or 15.3%, for the three months ended March 31, 2018, as compared to the same period in 2017. The calendar year loss ratios were 55.2% and 64.2% for the three months ended March 31, 2018 and 2017, respectively.

The Company's incurred losses during the three months ended March 31, 2018, included favorable prior-year reserve development of \$16,000. Excluding the effect of the ADC, the commercial lines of business reported \$104,000 of favorable prior-year development offset by \$366,000 of unfavorable development from the personal lines of business of which \$266,000 was attributable to additional 2017 losses from Hurricane Harvey. The ADC had a favorable impact of \$278,000 on prior year reserve development.

Total reserve development on prior accident years in the first quarter of 2017 was unfavorable by \$3.1 million, or 12.5 percentage points. This was primarily due to \$1.6 million of adverse reserve development in the commercial property line, \$1.3 million from the commercial liability line of business, \$325,000 from the Florida homeowners line, and \$201,000 from the personal auto line of business. The adverse development was offset by \$456,000 of favorable development in other lines of business.

#### Expense Ratio

Our expense ratio is calculated by dividing the sum of policy acquisition costs and other underwriting and operating expenses by the sum of net earned premiums and other income. We use the expense ratio to evaluate the operating efficiency of our consolidated operations and each segment. Costs that cannot be readily identifiable as a direct cost of a segment or product line remain in Corporate and Other for segment reporting purposes.

The table below provides the expense ratio by major component.

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|                          | Three Months<br>Ended<br>September 30,<br>2018 2017 |        |
|--------------------------|---|--------|
| Commercial Lines         |   |        |
| Policy acquisition costs | 26.8 %  | 25.3 % |
| Operating expenses       | 17.3 %  | 12.5 % |
| Total                    | 44.1 %  | 37.8 % |

|                          |        |        |
|--------------------------|--------|--------|
| Personal Lines           |        |        |
| Policy acquisition costs | 27.8 % | 31.5 % |
| Operating expenses       | 9.6 %  | 12.4 % |
| Total                    | 37.4 % | 43.9 % |

|                     |       |       |
|---------------------|-------|-------|
| Corporate and Other |       |       |
| Operating expenses  | 1.3 % | 6.1 % |
| Total               | 1.3 % | 6.1 % |

|                          |        |        |
|--------------------------|--------|--------|
| Consolidated             |        |        |
| Policy acquisition costs | 27.0 % | 26.4 % |
| Operating expenses       | 17.3 % | 18.5 % |
| Total                    | 44.3 % | 44.9 % |

Our expense ratio decreased 0.6 percentage points in the three months ended March 31, 2018, as compared to the same period in 2017.

Policy acquisition costs are costs we incur to issue policies, which include commissions, premium taxes, underwriting reports and underwriter compensation costs. The Company offsets direct commissions with ceded commissions from reinsurers. For the three months ended March 31, 2018 and 2017, the percentage of policy acquisition costs to net earned premiums and other income was 27.0% and 26.4%, respectively. The slightly higher policy acquisition costs as a percentage of net earned premium were due to a slightly higher contingent commission accrual in the first quarter of 2018, compared to the same period in 2017.

Operating expenses consist primarily of employee compensation, information technology and occupancy costs, such as rent and utilities. Operating expenses as a percent of net earned premiums and other income was 17.3% and 18.5% for the three months ended March 31, 2018 and 2017, respectively. The reduction in operating expenses is driven by the company-wide initiative to continue to reduce costs.

#### Underwriting Results

We measure the performance of our consolidated results, in part, based on our underwriting gain or loss. The following table provides the underwriting gain or loss for the three months ended March 31, 2018 and 2017 (dollars in thousands):

#### Underwriting Gain (Loss)

|                                  | Three Months<br>Ended March 31, |           |              |             |
|----------------------------------|---------------------------------|-----------|--------------|-------------|
|                                  | 2018                            | 2017      | \$<br>Change | %<br>Change |
| Commercial lines                 | \$1,130                         | \$(109)   | \$1,239      | *           |
| Personal lines                   | (716)                           | (682)     | (34)         | (5.0)%      |
| Corporate and Other              | (285)                           | (1,450)   | 1,165        | 80.3%       |
| Total underwriting income (loss) | \$129                           | \$(2,241) | \$2,370      | 105.8%      |

\*Percentage change is not meaningful

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## Liquidity and Capital Resources

### Sources and Uses of Funds

At March 31, 2018, we had \$16.9 million in cash and short-term investments. Our principal sources of funds, excluding capital raises, are insurance premiums, investment income, proceeds from maturity and sale of invested assets and installment fees. These funds are primarily used to pay claims, commissions, employee compensation, taxes and other operating expenses, and service debt.

We believe that our existing cash, short-term investments and investment securities balances will be adequate to meet our capital and liquidity needs and the needs of our subsidiaries on a short-term and long-term basis.

We conduct our business operations primarily through our Insurance Company Subsidiaries. Our ability to service debt, and pay administrative expenses is primarily reliant upon our intercompany service fees paid by the Insurance Company Subsidiaries to the holding company for management, administrative, and information technology services provided to the Insurance Company Subsidiaries by the holding company. Secondly, the holding company may receive dividends from the Insurance Company Subsidiaries; however, this is not the primary means in which the holding company supports its funding as state insurance laws restrict the ability of our Insurance Company Subsidiaries to declare dividends to the holding company. Generally, the limitations are based on the greater of statutory net income for the preceding year or 10% of statutory surplus at the end of the preceding year. There were no dividends paid from our Insurance Company Subsidiaries during the three months ended March 31, 2018.

### Cash Flows

**Operating Activities.** Cash used in operating activities for the three months ended March 31, 2018, was \$3.9 million as compared to \$3.9 million provided by operating activities for the same period in 2017. The decrease in cash provided by operations was primarily related to the increase in paid loss and loss adjustment expenses for the quarter.

**Investing Activities.** Cash provided by investing activities for the three months ended March 31, 2018, was \$6.4 million as compared to cash used in investing activities of \$5.6 million for the same period in 2017. The fluctuation in the funds used in routine investing activities correlates to the timing of when the portfolio investments matured and securities were repurchased.

**Financing Activities.** There was no cash used in financing activities for the three months ended March 31, 2018, as compared to \$0.6 million used in financing activities for the same period in 2017. The cash used in financing activities in 2017 was related to repayment of the Credit Facility.

### Outstanding Debt

We are party to \$30.0 million in subordinated notes, effective September 29, 2017. The notes mature on September 29, 2032, bear interest, payable quarterly at a fixed annual rate of 8.0%, and allows for up to four quarterly interest deferrals. Our total outstanding debt at March 31, 2018, was \$29.0 million. As there are no required principle payments in the short-term, our minimum interest payments on our debt for the remaining nine months of 2018 is \$1.8 million and \$4.8 million for 2019-2020. Refer to Note 7 ~ Debt of the Notes to the consolidated financial statements, for additional information regarding our outstanding debt.

### Non-GAAP Financial Measures

#### Statutory Capital and Surplus

Statutory capital and surplus is a non-GAAP measure. The Company's insurance subsidiaries' aggregate statutory capital and surplus was \$65.4 million and \$62.5 million at March 31, 2018 and December 31, 2017, respectively.

## Adjusted Operating Income and Adjusted Operating Income Per Share

Adjusted operating income and adjusted operating income per share are non-GAAP measures that represent net income allocable to common shareholders excluding net realized investment and other gains, net of tax. Beginning in 2018, the change in fair value of equity securities, net of tax, and the deferred gain on losses ceded to the ADC are also excluded from net income to arrive at adjusted operating income. The most directly comparable financial GAAP measures to adjusted operating income and adjusted operating income per share are net income and net income per share, respectively. Adjusted operating income and adjusted operating income per share are intended as supplemental information and are not meant to replace net income or net income per share. Adjusted operating income and adjusted operating income per share should be read in conjunction with the GAAP financial results. Our definition of adjusted operating income may be different from that used by other companies. The following is a reconciliation of net income (loss) to adjusted operating income (loss) (dollars in thousands), as well as net income (loss) per share to adjusted operating income (loss) per share:

|  | Three Months<br>Ended March 31, |            |
|--|---------------------------------|------------|
|  | 2018                            | 2017       |
| Net income (loss)  | \$213                           | \$(1,798 ) |
| Exclude:   |                                 |            |
| Net realized gains (losses) and other gains, net of tax        | 161                             | (8 )       |
| Change in fair value of equity securities, net of tax          | (297 )                          | —          |
| (Increase) in deferred gain on losses ceded to ADC, net of tax | (1,431 )                        | —          |
| Adjusted operating income (loss)                               | \$1,780                         | \$(1,790 ) |
| Weighted average common shares diluted                         | 8,520,328                       | 7,633,069  |
| Diluted income (loss) per common share:                        |                                 |            |
| Net income (loss)  | \$0.02                          | \$(0.24 )  |
| Exclude:   |                                 |            |
| Net realized gains (losses) and other gains, net of tax        | 0.02                            | —          |
| Change in fair value of equity securities, net of tax          | (0.04 )                         | —          |
| (Increase) in deferred gain on losses ceded to ADC, net of tax | (0.17 )                         | —          |
| Adjusted operating income (loss) per share                     | \$0.21                          | \$(0.24 )  |

We use adjusted operating income and adjusted operating income per share to assess our performance and to evaluate the results of our overall business. Adjusted operating income excludes the effect of items that tend to be highly variable from period to period and highlights the results from our ongoing business operations and the underlying loss or profitability of our business. We believe that it is useful for investors to evaluate adjusted operating income and adjusted operating income per share, along with net income and net income per share, when reviewing and evaluating our performance.

We believe these measures provide investors with valuable information relating to our ongoing performance that may be obscured by the change in fair value of our equity securities and the net effect of realized gains and losses as a result of our market risk sensitive instruments, which primarily relate to fixed income securities that are available for sale and not held for trading purposes. The change in fair value of equity securities and realized gains and losses may vary significantly between periods and are generally driven by external economic developments, such as capital market conditions. The deferred gain generated from the ADC is also excluded. The deferred gain represents ceded losses to the ADC that cannot be recognized under retroactive reinsurance accounting until a future period. However, the ceded losses do represent an economic benefit. Adjusted operating income reflects the ceded loss benefit in the same period the gross loss adverse development is recognized. By aligning the timing of gross adverse development recognition with the ADC benefit, adjusted operating income better reflects the current operating performance.

## Recently Issued Accounting Pronouncements

Refer to Note 1 ~ Summary of Significant Accounting Policies – Recently Issued Accounting Guidance of the Notes to the Consolidated Financial Statements for detailed information regarding recently issued accounting pronouncements.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, as well as, other relevant market rates or price changes. The volatility and liquidity in the markets in which the underlying assets are traded directly influence market risk. The following is a discussion of our primary market risk exposures and how those exposures are currently managed as of March 31, 2018. Our market risk sensitive instruments are primarily related to our fixed-income securities.

#### Interest Rate Risk

At March 31, 2018, the fair value of our investment portfolio, excluding cash and cash equivalents, was \$146.6 million. Our investment portfolio consists principally of investment-grade, fixed-income securities, all of which are classified as available for sale. Accordingly, the primary market risk exposure to our debt securities is interest rate risk. In general, the fair market value of a portfolio of fixed-income securities increases or decreases inversely with changes in market interest rates, while net investment income realized from future investments in fixed-income securities increases or decreases along with interest rates. We attempt to mitigate interest rate risks by investing in securities with varied maturity dates and by managing the duration of our investment portfolio to a defined range of three to four years. The effective duration of our portfolio as of March 31, 2018 and December 31, 2017, was 3.2 years, respectively.

The table below illustrates the sensitivity of the fair value of our fixed-income investments, classified as fixed maturity securities and short-term investments, to selected hypothetical changes in interest rates as of March 31, 2018. The selected scenarios are not predictions of future events, but rather illustrate the effect that events may have on the fair value of the fixed-income portfolio and shareholders' equity (dollars in thousands).

| Hypothetical Change in Interest Rates | Estimated Fair Value | Change in Fair Value | Hypothetical Percentage Increase (Decrease) in Shareholders' Equity |            |
|---------------------------------------|----------------------|----------------------|---|------------|
|                                       |                      |                      | Estimated Fair Value  | Percentage |
| As of March 31, 2018                  |                      |                      |   |            |
| 200 basis point increase              | \$ 128,434           | \$ (8,782 )          | (6.4)%  | (17.1 )%   |
| 100 basis point increase              | 132,688              | (4,528 )             | (3.3)%  | (8.8 )%    |
| No change                             | 137,216              | —                    | — %   | — %        |
| 100 basis point decrease              | 141,470              | 4,254                | 3.1 %   | 8.3 %      |
| 200 basis point decrease              | 145,312              | 8,096                | 5.9 %   | 15.7 %     |

#### Credit Risk

An additional exposure to our fixed-income securities portfolio is credit risk. We manage our credit risk by investing mainly in investment-grade securities. In addition, we comply with applicable statutory requirements which limit the portion of our total investment portfolio that we can invest in any one security.

We are subject to credit risks with respect to our reinsurers. Although a reinsurer is liable for losses to the extent of the coverage which it assumes, our reinsurance contracts do not discharge our insurance companies from primary liability to each policyholder for the full amount of the applicable policy, and consequently our insurance companies remain obligated to pay claims in accordance with the terms of the policies regardless of whether a reinsurer fulfills or defaults on its obligations under the related reinsurance agreement. To mitigate our credit risk to reinsurance companies, we attempt to select financially strong reinsurers with an A.M. Best rating of "A-" or better and continue to evaluate their financial condition throughout the duration of our agreements.

At March 31, 2018, the net amount due to the Company from reinsurers, including ceded unearned premiums, was \$25.7 million. We believe all amounts recorded as due from reinsurers are recoverable.

#### Effects of Inflation

We do not believe that inflation has a material effect on our results of operations, except for the effect that inflation may have on interest rates and claims costs. We consider the effects of inflation in pricing and estimating reserves for unpaid losses and LAE. The actual effects of inflation on our results are not known until claims are ultimately settled.

In addition to general price inflation, we are exposed to a long-term upward trend in the cost of judicial awards for damages.

#### ITEM 4. CONTROLS AND PROCEDURES

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

##### Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that required information is recorded, processed, summarized and reported within the required timeframe as specified in the SEC's rules and forms of the SEC. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed is accumulated and communicated to the Company's management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Our management, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures at March 31, 2018. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective, at the reasonable assurance level, as of March 31, 2018.

##### Changes in Internal Control over Financial Reporting

For the three months ended March 31, 2018, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that have materially affected, or are reasonable likely to materially affect the Company's internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The information required by this item is included under Note 12 ~ Commitments and Contingencies of the Notes to the Consolidated Financial Statements of the Company's Form 10-Q for the three months ended March 31, 2018, which is hereby incorporated by reference.

### ITEM 1A. RISK FACTORS

There were no material changes to the risk factors disclosed in our Annual Report on Form 10-K ("Item 1A Risk Factors") filed with the SEC on March 15, 2018.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On September 27, 2017, the Company's Board of Directors authorized a private placement stock purchase offering wherein the Company was authorized to sell a maximum of \$7.0 million of the Company's common stock, no par value per share, pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506(b) of Regulation D as promulgated under the Securities Act and in accordance with applicable federal securities laws, including Rule 10b5-1 and 10b-18 of the Securities Exchange Act of 1934 as amended. The participants in the private placement consisted mainly of members of the Company's management team and Board of Directors, including the Company's Chairman and CEO, James Petcoff.

Under this private placement offering, the Company issued \$5.0 million of common equity consisting of 800,000 shares at the price of \$6.25 per share on September 28, 2017. The Company's common stock closing market price on the Nasdaq Stock Market on September 28, 2017, was \$6.05 per share. The offering was made to accredited investors only. No commissions or other remuneration were paid in connection with the issuance. The actual timing, number and value of shares to be issued under the private placement offering was determined by management in its discretion and depended on a number of factors, including the market price of the Company's stock, general marketing conditions, and other factors. The Company used the proceeds from the issuance to strengthen its balance sheet through contributions to the Insurance Company Subsidiaries to support future growth, as well as to cover the cost of the ADC and reserve strengthening.

On February 25, 2016, the Company's Board of Directors authorized a stock repurchase program, under which the Company may repurchase up to \$2.1 million of its outstanding common stock. Under this program, management was authorized to repurchase shares at prevailing market prices through open market purchases, privately negotiated transactions, block purchases or otherwise in accordance with applicable federal securities laws, including Rule 10b5-1 and 10b-18 of the Securities Exchange Act of 1934, as amended. The actual timing, number and value of shares repurchased under the program was determined by management in its discretion and depended on a number of factors, including the market price of the Company's stock, general market conditions, and other factors. The Company did not repurchase any of its outstanding common stock during 2017 or in the first quarter of 2018.

No underwriters were involved in the foregoing sales of securities. The issuances of the securities described above were deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering.

ITEM 6. EXHIBITS

| Exhibit<br>Number | Exhibit Description                           | Incorporated by Reference |                  |                                 |
|-------------------|---|---------------------------|------------------|---------------------------------|
|                   |   | Form                      | Period<br>Ending | Exhibit /<br>Appendix<br>Number |
| 31.1              | <u>Section 302 Certification - CEO</u>        |                           |                  |                                 |
| 31.2              | <u>Section 302 Certification - CFO</u>        |                           |                  |                                 |
| 32.1*             | <u>Section 906 Certification - CEO</u>        |                           |                  |                                 |
| 32.2*             | <u>Section 906 Certification - CFO</u>        |                           |                  |                                 |
| 101.INS           | XBRL Instance Document                        |                           |                  |                                 |
| 101.SCH           | XBRL Taxonomy Extension Schema Document       |                           |                  |                                 |
| 101.CAL           | XBRL Taxonomy Extension Calculation Linkbase  |                           |                  |                                 |
| 101.DEF           | XBRL Taxonomy Extension Definition Linkbase   |                           |                  |                                 |
| 101.LAB           | XBRL Taxonomy Extension Label Linkbase        |                           |                  |                                 |
| 101.PRE           | XBRL Taxonomy Extension Presentation Linkbase |                           |                  |                                 |

\* This certification is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

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.

CONIFER HOLDINGS, INC.

By: /s/ Harold J. Meloche  
Harold J. Meloche  
Chief Financial Officer,  
Principal Financial Officer,  
Principal Accounting Officer

Dated: May 9, 2018