Conifer Holdings, Inc.
Form 10-Q
May 12, 2016

## 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, 2016
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
(State or other jurisdiction of
incorporation or organization)

$$
27-1298795
$$

(I.R.S. Employer

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Non-accelerated filer
Large accelerated filer Accelerated filer (Do not check if a smaller Smaller reporting company
reporting company)
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 10,2016 , was $7,595,635$.
Form 10-Q
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## PART 1 - FINANCIAL INFORMATION <br> ITEM 1 - FINANCIAL STATEMENTS

CONIFER HOLDINGS, INC. AND SUBSIDIARIES<br>Consolidated Balance Sheets<br>(dollars in thousands)

|  | March 31, <br> 2016 | December <br> (Unaudited) |
| :--- | :--- | :--- |
| Assets |  |  |
| Investment securities: | $\$ 109,671$ | $\$ 107,093$ |
| Fixed maturity securities, at fair value (amortized cost of $\$ 108,390$ | 4,380 | 4,240 |
| and $\$ 107,213$, respectively) | 5,142 | 6,391 |
| Equity securities, at fair value (cost of $\$ 3,339$ and $\$ 3,341$, respectively) | 119,193 | 117,724 |
| Short-term investments, at fair value |  |  |
| Total investments | 15,843 | 12,703 |
|  | 19,321 | 18,010 |
| Cash | 1,907 | 1,792 |
| Premiums and agents' balances receivable, net | 5,015 | 5,405 |
| Receivable from affiliate | 1,039 | 1,639 |
| Reinsurance recoverables on unpaid losses | 3,988 | 3,483 |
| Reinsurance recoverables on paid losses | 12,221 | 12,102 |
| Ceded unearned premiums | 5,497 |  |
| Deferred policy acquisition costs | $\$ 184,024$ | $\$ 177,927$ |

Liabilities and Shareholders' Equity
Liabilities:
Unpaid losses and loss adjustment expenses $\quad \$ 38,488 \quad \$ 35,422$
Unearned premiums 49,763 47,916
Reinsurance premiums payable $\quad 1,369 \quad 1,069$
$\begin{array}{lll}\text { Senior debt } & 13,250 & 12,750\end{array}$
$\begin{array}{lll}\text { Accounts payable and accrued expenses } & 3,768 & 2,758\end{array}$
$\begin{array}{ll}\text { Other liabilities } & 637 \\ 750\end{array}$
$\begin{array}{ll}\text { Total liabilities } & 107,275 \quad 100,665\end{array}$
Commitments and contingencies
Shareholders' equity:
Common stock, no par value ( $100,000,000$ shares authorized; 7,610,659 and 7,644,492 issued $80,084 \quad 80,111$ and outstanding, respectively)
Accumulated deficit $\quad(5,059)(3,031$
Accumulated other comprehensive income 182
Total shareholders' equity
76,749 77,262
Total liabilities and shareholders' equity
\$ 184,024 \$177,927
The accompanying notes are an integral part of the Consolidated Financial Statements.

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CONIFER HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations (Unaudited)
(dollars in thousands, except per share data)


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CONIFER HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
(dollars in thousands)


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

CONIFER HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statement of Changes in Redeemable Preferred Stock and Shareholders' Equity (Unaudited) (dollars in thousands)

|  | Redeemable <br> Preferred Stock |  | Preferred Stock |  | No Par, Common Stock |  | Retained Accumulatetal  <br> Earnings Other <br> Conifer  <br> Holdings  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Shares | Amoun | tShares | Amount | Shares | Amount | (Accumu deficit) | $\begin{aligned} & \text { Comprel } \\ & \text { ulated } \\ & \text { Income } \\ & \text { (Loss) } \end{aligned}$ | Shnsive Equity | ldevónco Intere | offtooding sEquity |
| Balances at December 31, 2014 | 60,600 | \$6,119 | - | \$- | 3,995,013 | \$46,119 | \$ $(3,095)$ | \$ 1,158 | \$44,182 | \$(23) | \$44,159 |
| Net income | - | - | - | - | - | - | 463 | - | 463 | 49 | 512 |
| Issuance of common stock (Pre IPO)* | - | - | - | - | 55,029 | 750 | - | - | 750 | - | 750 |
| Paid-in-kind dividends | - | 61 | - | - | - | (61 | ) - | - | (61 | ) - | (61 ) |
| Cash dividends paid on preferred stock |  | - | - | - | - | (152 | ) - | - | (152 | ) - | (152 ) |
| Reclassification <br> of <br> redeemable pref <br> stock to <br> permanent <br> equity | ferred $(60,600)$ | (6,180 | ) 60,600 | 6,180 | - | - | - | - | 6,180 | - | 6,180 |
| Other comprehensive loss |  | - | - | - | - | - | - | 486 | 486 | - | 486 |
| Balances at <br> March 31, 2015 |  | \$- | 60,600 | \$6,180 | 4,050,042 | \$46,656 | \$ $(2,632)$ | \$1,644 | \$51,848 | \$26 | \$51,874 |
| Net loss | - | - | - | - | - | - | (399 | - | (399 | (130) | (529 |
| Paid-in-kind dividends | - | - | - | 95 | - | (95 | ) - | - | - | - | - |
| Cash dividends paid on preferred stock | - | - | - | - | - | (232 | ) - | - | (232 | ) - | (232 ) |
| Issuance of common stock (IPO)* |  | - | - | - | 3,300,000 | 32,224 | - | - | 32,224 | - | 32,224 |
| IPO Expenses* |  | - | - | - | - | (1,837 | ) - | - | (1,837 | ) - | (1,837 |
| Repurchase of preferred stock |  | - | $(60,600)$ | $(6,275)$ | - | - | - | - | (6,275 | - | (6,275 |
| Issuance of common stock to former preferred | - | - | - | - | 294,450 | 3,092 | - | - | 3,092 | - | 3,092 |

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$\left.\begin{array}{lllllllllllll}\begin{array}{l}\text { stockholders } \\ \text { Vesting of } \\ \text { RSU** }\end{array} & - & - & - & - & - & 303 & - & - & 303 & - & 303 \\ \begin{array}{l}\text { Deconsolidation } \\ \text { of affiliate }\end{array} & - & - & - & - & - & - & - & - & - & 104 & 104 \\ \begin{array}{l}\text { Other } \\ \text { comprehensive } \\ \text { loss }\end{array} & - & - & - & - & - & - & - & (1,462 & (1,462 & ) & - & (1,462\end{array}\right)$

* "IPO" - initial public offering
** "RSU" - restricted stock units

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)


| Net cash provided by financing activities | 269 | 1,260 |
| :--- | :--- | :--- |
| Net increase in cash | 3,140 | 693 |
| Cash at beginning of period | 12,703 | 18,488 |
| Cash at end of period | $\$ 15,843$ | $\$ 19,181$ |
|  |  |  |
| Supplemental Disclosure of Cash Flow Information: | $\$ 98$ | $\$ 233$ |
| Interest paid | - | - |
| Net income taxes paid <br> Dividends declared but not paid at end of the period <br> Paid-in-kind interest | - | 61 |

The accompanying notes are an integral part of the Consolidated Financial Statements.
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## CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(Unaudited)

## 1. Summary of Significant Accounting Policies

Basis of Presentation and Management Representation
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"), American Colonial Insurance Company ("ACIC"), American Colonial Insurance Services ("ACIS") and Sycamore Insurance Agency, Inc ("SIA"). CIC, WPIC, RCIC and ACIC 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 ("GAAP"), which differ from statutory accounting practices prescribed or permitted for insurance companies by regulatory authorities. The Company has applied the applicable 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, 2016, are not necessarily indicative of the results expected for the year ended December 31, 2016.
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, 2015, as filed with the SEC on March 15, 2016.

## Business

The Company is engaged in the sale of property and casualty insurance products and has organized its principal operations into two types of insurance businesses: commercial lines and personal lines. The Company underwrites a variety of specialty insurance products, including property, general liability, commercial multi-peril, liquor liability, automobile, and homeowners and dwelling policies. The Company markets and sells its insurance products through a network of independent agents, including managing general agents, whereby policies are written in all 50 states in the United States. The Company's corporate headquarters is located in Birmingham, Michigan with additional office facilities in Florida, Texas, Pennsylvania and Tennessee.
The Company discontinued offering nonstandard personal automobile policies in the first half of 2015. The Company will continue to pay claims and perform other administrative services until existing policies expire and all claims are paid (a process referred to as "run-off"). The run-off is expected to be substantially complete by the end of 2016. Initial Public Offering
In August 2015, the Company completed its initial public offering ("IPO") whereby it issued and sold 3,300,000 shares of common stock, which included 100,000 shares issued and sold to the Company's Chief Executive Officer, at a public offering price of $\$ 10.50$ per share. Refer to Note $8 \sim$ Shareholders' Equity for further details.

## Stock Split

On July 22, 2015, the board of directors approved a stock split in the form of a stock dividend of 10.2 shares for each share of common stock which was effectuated immediately prior to the effectiveness of the IPO. Accordingly, all common share and per share amounts for all periods presented in these unaudited consolidated financial statements and notes thereto, were adjusted retroactively to reflect the stock split.
Principles of Consolidation
Prior to September 30, 2015, the consolidated financial statements included the accounts of Conifer Holdings, Inc. and its wholly owned subsidiaries, as well as a $50 \%$-owned affiliate (the "Affiliate") which the Company controlled due to its majority representation on the entity's board of directors. Noncontrolling interest in a consolidated subsidiary in the
consolidated balance sheets represents the noncontrolling shareholder's proportionate share of the entity's equity. Consolidated net income or loss is allocated to the Company and noncontrolling interest in proportion to their percentage ownership interests. As of September 30, 2015, the Company no longer controlled the Affiliate but retained significant influence. As a result the entity

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was deconsolidated from the consolidated financial statements and recognized as an investment in an affiliate utilizing the equity method of accounting. All intercompany transactions and accounts were eliminated.
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
In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-09, Disclosures about Short-Duration Contracts (Topic 944), which enhances disclosure requirements for insurance entities with short-duration insurance contracts. The enhanced disclosures under the new guidance will be provided by the Company for the year ended December 31, 2016, as required.
In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this update modify the requirements related to the measurement of certain financial instruments in the statement of financial condition and results of operation. Management is currently evaluating the impact of the guidance.
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. We have not yet completed the analysis of how adopting this guidance will affect our financial statements.
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, 2016 and December 31, 2015 were as follows (dollars in thousands):

March 31, 2016

Fixed Maturity Securities:
U.S. Government obligations

State and local government
Corporate debt
Commercial mortgage-backed and other asset-backed
Total fixed maturity securities available for sale

| Cost or | Gross | Estimated |
| :--- | :--- | :--- |
| Amortized | Unrealized | Fair |
| Cost | Gains | Losses Value |

Equity Securities:
Common stocks - Public Utilities $190 \quad 46$ - 236
Common stocks - Banks, Trusts and Insurance Companies $523 \quad 157 \quad(8)$

Common stocks - Industrial, miscellaneous and all other | 2,626 |
| :---: |

Total equity securities available for sale
3,339 1,102 (61 ) 4,380
Total securities available for sale
\$111,729\$2,756\$(434)\$114,051

Fixed Maturity Securities:
U.S. Government obligations

State and local government
Corporate debt
Commercial mortgage-backed and other asset-backed
Total fixed maturity securities available for sale
Equity Securities:
Common stocks - Public Utilities $122 \quad 20 \quad(1) 141$
Common stocks - Banks, Trusts and Insurance Companies $503 \quad 150 \quad$ (7) 646
Common stocks - Industrial, miscellaneous and all other $2,716 \quad 836$ (99 ) 3,453
Total equity securities available for sale 3,341 1,006 (107 )4,240
Total securities available for sale $\quad \$ 110,554 \$ 1,699 \$(920) \$ 111,333$
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, 2016

Fixed Maturity Securities:
U.S. Government obligations

State and local government
Corporate debt
Commercial mortgage and asset-backed
Total fixed maturity securities available for
sale
Equity Securities:
$\left.\begin{array}{llllllll}\text { Common stock } & 25523 & (49 & ) & 276 & (12 & ) & 27599 \\ \text { Total equity securities available for sale } & 25523 & (49 & 276 & 276 & (12 & ) & 27599\end{array}\right)(61)$

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Fixed Maturity Securities:
U.S. Government obligations

State and local government
Corporate debt
Commercial mortgage and asset-backed
Total fixed maturity securities available for sale
Equity Securities:

| Common stock | 86782 | $(72)$ | 3 | 79 | $(35$ | $) 89861$ | $(107)$ |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Total equity securities available for sale | 86782 | $(72)$ | 3 | 79 | $(35$ | $)$ | 89861 | $(107)$ |
| Total securities | $248 \$ 60,349$ | $\$(781)$ | $22 \$ 6,551$ | $\$(139)$ | $270 \$ 66,900$ | $\$(920)$ |  |  |

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, nor recognize a non-credit related OTTI loss in other comprehensive income for the three months ended March 31, 2016 and 2015.
The Company's sources of net investment income are as follows (dollars in thousands):
Three
Months
Ended March
31,
20162015
Fixed maturity securities $\quad \$ 586 \quad \$ 531$
Equity securities 2623
Cash and short-term investments 22
Total investment income 614556
Investment expenses (77 ) (70 )
Net investment income \$537 \$486

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| 7 | $\$ 2,580$ | $\$(7$ | $)$ | 2 | $\$ 679$ | $\$(6$ | $)$ | 9 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| 8 | $\$ 3,259$ | $\$(13$ | $)$ |  |  |  |  |  |
| 8 | 2,688 | $(6$ | $)$ | - | - | 8 | 2,688 | $(6$ |
| 80 | 21,760 | $(438$ | $)$ | 123,618 | $(45$ | $)$ | 92 | 25,378 |
| 67 | 32,539 | $(258$ | $)$ | 52,175 | $(53$ | $)$ | 72 | 34,714 |
| 16259,567 | $(709$ | $)$ | 196,472 | $(104$ | $)$ | 18166,039 | $(813$ | $)$ |


|  | Three <br> Months <br> Ended March |  |
| :--- | :--- | :--- |
|  | 31, |  |
|  | 2016 | 2015 |
|  | $\$ 586$ | $\$ 531$ |
| Fixed maturity securities | 26 | 23 |
| Equity securities | 614 | 556 |
| Cash and short-term investments | 2 |  |
| Total investment income | $(77$ | $)(70$ |
| Investment expenses | $\$ 537$ | $\$ 486$ |

December 31, 2015

| Less than 12 months | Greater than 12 months | Total |
| :---: | :---: | :---: |
| Fair Value | Fair | Fair Value |
| of Gross | Value of Gross | of Gross |
| of InvestmentsUn | \# InvestmentsUn | \# InvestmentsUn |
| of with realized | Isswith realized | Issuith realized |
| Unrealized Losses | Unrealized Losses | Issues Unrealized Losses |
| Losses | Losses | Losses |

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

> Three

Months
Ended
March 31,
20162015
Fixed maturity securities:
Gross realized gains $\quad \$ 16 \quad \$ 68$
Gross realized losses (6 ) (3 )
Total fixed maturity securities $10 \quad 65$
Equity securities:
Gross realized gains $\quad 56 \quad 99$
Gross realized losses (74)(19 )
Total equity securities (18) 80
Total realized gains (losses) \$(8) \$145
Proceeds from the sales of debt and equity securities available for sale were $\$ 2.6$ million and $\$ 2.3$ million for the three months ended March 31, 2016 and 2015, respectively.
The table below summarizes the amortized cost and fair value of available-for-sale fixed maturity securities by contractual maturity at March 31, 2016. 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 |
| :--- | :--- | :--- |
|  | $\$ 6,018$ | $\$ 6,028$ |
| Due in one year or less | 35,972 | 36,293 |
| Due after one year through five years | 9,791 | 9,033 |
| Due after five years through ten years | 8,113 | 8,328 |
| Due after ten years | 89,894 | 59,682 |
| Securities with contractual maturities | 58,896 |  |
| Commercial mortgage and asset backed | 49,496 | 49,989 |
| Total Fixed maturity securities | $\$ 108,390$ | $\$ 109,671$ |

At March 31, 2016 and December 31, 2015, the insurance companies had an aggregate of $\$ 9.6$ million and $\$ 8.9$ million, respectively, on deposit in trust accounts to meet the deposit requirements of various state insurance departments. 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 principal 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 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, 2016 and December 31, 2015 (dollars in thousands):

March 31, 2016
Fair Value Measurements Using
Quoted
Prices

|  | in |  |  |
| :--- | :--- | :--- | :--- |
|  | Active | Significant | Significant |
| Total | Markets | Other | Observable |
| for | Unobservable |  |  |
|  | Inputs |  |  |
|  | Identical | Inputs | (Level 2) |
| (Level 3) |  |  |  |
|  | Assets |  |  |
|  | (Level |  |  |
|  | 1) |  |  |

Assets:
Fixed Maturity Securities:

| U.S. Government obligations | $\$ 4,707$ | $\$-$ | $\$ 4,707$ | $\$$ | - |
| :--- | :--- | :--- | :--- | :--- | :--- |
| State and local government | 14,663 | - | 14,663 | - |  |
| Corporate debt | 40,312 | - | 40,312 | - |  |
| Commercial mortgage-backed and other asset-backed | 49,989 | - | 49,989 | - |  |
| Total fixed maturity securities | 109,671 | - | 109,671 | - |  |
| Equity Securities, common stock | 4,380 | 4,380 | - | - |  |
| Short-term investments | 5,142 | 5,142 | - | - |  |
| Total assets measured at fair value | $\$ 119,193$ | $\$ 9,522$ | $\$ 109,671$ | $\$$ | - |

Liabilities:
$\begin{array}{llllll}\text { Senior debt* } & \$ 13,250 & \$- & \$ 13,250 & \$ & - \\ \text { Total Liabilities measured at fair value } & \$ 13,250 & \$- & \$ 13,250 & \$ & -\end{array}$

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

December 31, 2015
Fair Value Measurements Using
Quoted
Prices in

|  | Active | Significant |  |
| :---: | :--- | :--- | :--- |
| Total | Markets | Other | Significant |
|  | for | Observable | Unobservable |
|  | Identical | Inputs | Inputs |
|  | Assets <br>  <br>  <br> (Level | Level 2) | (Level 3) |
|  |  |  |  |

1) 

Assets:
Fixed Maturity Securities:

| U.S. Government obligations | $\$ 5,508$ | $\$-$ | $\$ 5,508$ | $\$$ | - |
| :--- | :--- | :--- | :--- | :--- | :--- |
| State and local government | 14,783 | - | 14,783 | - |  |
| Corporate debt | 38,784 | - | 38,784 | - |  |
| Commercial mortgage-backed and other asset-backed | 48,018 | - | 48,018 | - |  |
| Total fixed maturity securities | 107,093 | - | 107,093 | - |  |
| Equity Securities, common stock | 4,240 | 4,240 | - | - |  |
| Short-term investments | 6,391 | 6,391 | - | - |  |
| Total assets measured at fair value | $\$ 117,724$ | $\$ 10,631$ | $\$ 107,093$ | $\$$ | - |
|  |  |  |  |  |  |
| Liabilities: | $\$ 12,750$ | $\$-$ | $\$ 12,750$ | $\$$ | - |
| Senior debt* | $\$ 12,750$ | $\$-$ | $\$ 12,750$ | $\$$ | - |
| Total Liabilities measured at fair value |  |  |  |  |  |

* 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 $8.0 \%$ of the fair value of the total investment portfolio as of March 31, 2016. Level 2 investments include fixed maturity 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, 2016.
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 or (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.
The Level 2 financial instruments also include our senior debt. The fair value of borrowings under the senior debt, consisting of the revolving credit facility and term loans, approximates its carrying amount because interest is based on a short-term, variable, market-based rate.

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, 2016 and 2015, 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, 2016 and 2015. The activity in deferred policy acquisition costs, net of reinsurance transactions, is as follows (dollars in thousands):

Three Months
Ended
March 31,
20162015
Balance at beginning of period
\$12,102 \$5,679
Deferred policy acquisition costs 6,122 3,036
Amortization of policy acquisition costs (6,003 ) (2,595)
Net change 119441
Balance at end of period
\$12,221 \$6,120

## 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 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, |  |
| :---: | :---: | :---: |
|  | 2016 | 2015 |
| Gross reserves - beginning of period | \$35,422 | \$31,531 |
| Less: reinsurance recoverables on unpaid losses | 5,405 | 3,224 |
| Net reserves - beginning of period | 30,017 | 28,307 |
| Add: incurred losses and LAE, net of reinsurance: |  |  |
| Current period | 11,112 | 8,535 |
| Prior period | 1,587 | 35 |
| Total net incurred losses and LAE | 12,699 | 8,570 |
| Deduct: loss and LAE payments, net of reinsurance: |  |  |
| Current period | 1,999 | 1,765 |
| Prior period | 7,244 | 6,715 |
| Total net loss and LAE payments | 9,243 | 8,480 |
| Net reserves - end of period | 33,473 | 28,397 |
| Plus: reinsurance recoverables on unpaid losses | 5,015 | 4,590 |
| Gross reserves - end of period | \$38,488 | \$32,987 |

The Company's incurred losses during the three months ended March 31, 2016 include prior-year adverse reserve development of $\$ 1.6$ million. The adverse development was generated by the Florida homeowners, personal automobile, and commercial automobile lines, totaling $\$ 758,000, \$ 547,000$, and $\$ 858,000$, respectively. This adverse development was partially offset by favorable development of $\$ 271,000$ and $\$ 253,000$ in commercial multi-peril and workers compensation lines, respectively.
The Company's incurred losses during the three months ended March 31, 2015, reflect prior-year adverse reserve development of $\$ 35,000$. The adverse development was generated primarily by adverse development in the commercial and personal automobile lines of $\$ 195,000$ and $\$ 69,000$, respectively, which was partially offset by favorable development of $\$ 207,000$ in the workers compensation line.
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 risks in excess of $\$ 500,000$ in both 2016 and 2015. Reinsurance does not discharge the direct insurer from liability to its policyholder. 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 rating, or where the policies are written in a state where the Company is not licensed or for other strategic reasons. Assumed premiums is comprised entirely of these arrangements other than where there are premiums assumed from Citizens Property and Casualty Corporation ("Citizens").
The following table presents the effects of such reinsurance and assumption transactions on premiums, and losses and LAE (dollars in thousands):

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Three Months
Ended
March 31,
$2016 \quad 2015$

Written premiums:
Direct $\quad \$ 21,600 \quad \$ 21,119$
Assumed $\quad 3,793 \quad 85$
Ceded (3,343 ) (7,538)
Net written premiums $\$ 22,050$ \$13,666

Earned premiums:
$\left.\begin{array}{lll}\text { Direct } & \$ 22,241 & \$ 19,301 \\ \text { Assumed } & 1,305 & 1,673 \\ \text { Ceded } & (3,437 & (6,481\end{array}\right)$

Net earned premiums $\$ 20,109 \quad \$ 14,493$

Losses and LAE:
Direct \$13,939 \$9,652
Assumed 909794
Ceded (2,149 ) (1,876)
Net Losses and LAE \$12,699 \$8,570

## 7. Senior Debt

The Company's senior debt facility ("Credit Facility") is comprised of three notes: a $\$ 17.5$ million revolving line of credit ("Revolver"); 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"). A summary of the outstanding senior debt is as follows (dollars in thousands):

| March 31, December 31, |  |
| :--- | :--- |
| 2016 | 2015 |
| $\$ 4,500$ | $\$ 3,500$ |
| 2,500 | 2,750 |
| 6,250 | 6,500 |
| $\$ 13,250$ | $\$ 12,750$ |

The undrawn portion of the Revolver was $\$ 13.0$ million as of March 31, 2016, and is available to finance working capital, fund other general corporate purposes and provide surplus contributions to the Company's Insurance Company Subsidiaries to support premium growth or strategic acquisitions.
The Credit Facility contains various restrictive covenants that relate to the Company's shareholders' equity, premiums-to-capital and surplus ratios, fixed-charge coverage ratio, risk-based capital ratios, and A.M. Best ratings of its Insurance Company Subsidiaries. At March 31, 2016, the Company was in compliance with all of its Credit Facility financial covenants.
8. Shareholders' Equity

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 over a one-year period. Under this program, management is 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 will be determined by management in its discretion and will depend on a number of factors, including the market price of the Company's stock, general market conditions, and other factors. Repurchases may be made from time to time, without prior notice. The Company may suspend or
discontinue the program at any time. As of March 31, 2016, the Company had repurchased 33,833 shares of stock valued at approximately $\$ 231,000$.
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 Ended March 31, 20162015

| Balance at beginning of $\$$ period | 182 | \$ | 1,158 |
| :---: | :---: | :---: | :---: |
| Other comprehensive income before reclassifications |  | 703 |  |
| Amounts reclassified from accumulated other comprehensive income (loss) |  | (217 |  |
| Net current period other comprehensive income 1,542 (loss) |  | 486 |  |
| Balance at end of period\$ | 1,724 | \$ | 1,644 |

## 10. Earnings Per Share

Basic and diluted earnings (loss) per share are computed by dividing net income allocable to common shareholders by the weighted average number of common shares outstanding during the period. The dividends on preferred stock and other gains are deducted from the net income to arrive at net income allocable to common shareholders. In the period of a net loss, the dividends on preferred stock are added to the net loss to arrive at net loss allocable to common shareholders. The following table presents the calculation of basic and diluted earnings (loss) per common share, as follows (dollars in thousands, except per share amounts):

Net income (loss) attributable to Conifer
Preferred stock dividends
Paid-in-kind dividends
Net income (loss) allocable to common shareholders
Weighted average common shares, basic and diluted*

| Three Months |  |
| :--- | :--- |
| Ended March 31, |  |
| 2016 | 2015 |
| $\$(2,028)$ | $\$ 463$ |
| - | 152 |
| - | 61 |
| $\$(2,028)$ | $\$ 250$ |

7,638,7804,040,872
Earnings (loss) per share allocable to common, basic and diluted \$(0.27)\$0.06

* The nonvested shares of the restricted stock units were anti-dilutive as of March 31, 2016. Therefore, the basic and and diluted weighted average common shares are equal as of March 31, 2016.

11. Stock-based Compensation

In 2015, the Company issued 390,352 restricted stock units ("RSU") 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. The Company recorded $\$ 204,000$ of compensation expense related to the RSUs for the three months ended March 31, 2016. The total compensation cost related to the non-vested portion of the restricted stock units which has not been recognized as of March 31, 2016 was $\$ 3.6$ million.

## 12. Commitments and Contingencies <br> 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 are covered by the insurance policy at issue. 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 principal operations into two types of insurance businesses: commercial lines 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 decision-making group, comprised of key senior executives, reviews a number of financial measures including gross written premiums, net earned premiums, 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 other underwriting and operating expenses of the operating segments. Other underwriting and operating expenses primarily include compensation and related benefits for underwriting personnel, licensing of 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, Pennsylvania and Texas. For the three months ended March 31, 2016 and 2015, gross written premiums attributable to these four states were $70 \%$ and $69 \%$, respectively, of the Company's total gross written premiums.
The commercial lines and personal lines accounted for approximately $76 \%$ and $24 \%$, respectively, of net earned premiums for the three months ended March 31, 2016, and approximately $65 \%$ and $35 \%$, respectively, of net earned premiums for the three months ended March 31, 2015. Other income includes installment and policy fees charged to policyholders and commission income from third party insurers on policies written through our agencies relating to our product lines.
The following provides a description of the Company's two insurance businesses and product offerings within these businesses:
Commercial lines-offers coverage for property, liability, automobile and other miscellaneous coverage primarily to owner-operated small and mid-sized businesses, professional organizations and hospitality businesses such as restaurants, bars and taverns. Included within commercial insurance business are the following key products:

Commercial multi-peril ("CMP")—provides property and liability coverages in a package to the policyholder.
Other liability—provides coverage for general liability and liquor liability on an individual policy.
Automobile—provides coverage for commercial automobiles for businesses that supply to their employees company-owned vehicles.

Other—primarily includes workers' compensation coverage in narrowly selected

- areas.

Personal lines-offers coverage for low-value dwelling, wind-exposed homeowners and automobile. Included within personal insurance business are the following key products:
Low-value dwelling-provides coverage for nonstandard homeowners insurance and dwelling fire insurance products (property and basic perils coverage only) located primarily in Indiana, Illinois and Texas.

Wind-exposed homeowners-provides coverage in niche homeowners markets that have special risk characteristics, including coastal exposure to wind, located primarily in Florida, Hawaii and Texas. Automobile-provides coverage for nonstandard private passenger automobile insurance policies primarily for individuals located in Florida and Illinois. Both the Florida and Illinois books of nonstandard auto business are currently in run-off.

In addition to the reportable 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 finance and information technology personnel, and other corporate headquarters expenses, (ii) interest expense on the Company's senior debt obligations; (iii) depreciation and amortization on property and equipment, and (iv) 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. The following tables present information by reportable segment (dollars in thousands):

Commercial Lines

Three Months
Ended
March 31, $\quad$ CMP $\quad \begin{aligned} & \text { Other } \\ & \text { Liability }\end{aligned}$ Auto $\begin{array}{ll}\text { Other }\end{array}$ Total $\begin{aligned} & \text { Low-valu\&ind- } \\ & \text { Dwellingexposed }\end{aligned}$ Auto Total $\begin{aligned} & \text { Corporate } \\ & \text { \& Other }\end{aligned}$ Total 2016
$\left.\begin{array}{llllllllll}\text { Gross written } & \$ 12,121 & \$ 3,400 & \$ 2,531 & \$ 1,092 & \$ 19,144 & \$ 2,311 & \$ 3,937 & \$ 1 & \$ 6,249\end{array}\right) \$-\quad \$ 25,393$
Net written
premiums
Net earned premiums

| Ended <br> March 31, <br> 2016 | CMP | Other <br> Liability | Auto | Other | Total | Low-valuWind- <br> Dwellingexposed | Auto | Total | Corporate <br> \& Other | Total |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |

revenue
Loss and loss

expenses, net
Policy

| Ended <br> March 31, | CMP | Other <br> Liability | Auto | Other | Total | Low-val Dwellin | uWindgexposed | Auto | Total | Corporate \& Other | Total |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 2016 |  |  |  |  |  |  |  |  |  |  |  |
| Gross written premiums | \$12,121 | \$3,400 | \$2,531 | \$1,092 | \$ 19,144 | \$2,311 | \$3,937 | \$ 1 | \$6,249 | \$- | \$25,393 |
| Net written premiums | \$ 10,599 | \$3,084 | \$2,265 | \$ 1,038 | \$ 16,986 | \$2,031 | \$3,032 | \$ 1 | \$5,064 | \$- | \$22,050 |
| Net earned premiums | \$9,438 | \$2,357 | \$2,588 | \$896 | \$ 15,279 | \$1,761 | \$3,067 | \$2 | \$4,830 | \$- | \$20,109 |
| Other income | 60 | 33 | 5 | - | 98 | 112 | 20 | - | 132 | 15 | 245 |
| Segment revenue | 9,498 | 2,390 | 2,593 | 896 | 15,377 | 1,873 | 3,087 | 2 | 4,962 | 15 | 20,354 |
| Loss and loss adjustment expenses, net | 4,402 | 1,489 | 2,498 | 246 | 8,635 | 1,140 | 2,378 | 546 | 4,064 | - | 12,699 |
| Policy acquisition costs | 2,843 | 732 | 661 | 152 | 4,388 | 582 | 1,033 | - | 1,615 | - | 6,003 |
| Operating expenses | 1,247 | 249 | 131 | 107 | 1,734 | 355 | 282 | 32 | 669 | 1,736 | 4,139 |
| Segment expenses | 8,492 | 2,470 | 3,290 | 505 | 14,757 | 2,077 | 3,693 | 578 | 6,348 | 1,736 | 22,841 |

Segment
underwriting ga\$nl,006 \$(80 ) \$(697) \$391 \$620 \$(204 ) \$(606) \$(576) \$(1,386) \$(1,721)\$(2,487)
(loss)

Investment
income
Net realized
investment
Personal Lines
Homeowners
gains (losses)
Interest
expense (157 ) (157 )

Income (loss)
before income $\quad \$(1,349) \$(2,115)$
taxes
Commercial Lines Personal Lines

Three Months
Ended
March 31, 2015
Gross written
premiums
Net written premiums Net earned premiums

| Other income | 306 | 38 | 5 | - | 349 | 63 | 9 | 56 | 128 | 12 | 489 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |

Segment revenue
Loss and loss

| adjustment expenses3,780 | 454 | 1,065 | 18 | 5,317 | 872 | 882 | 1,499 | 3,253 | - | 8,570 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |

net

| Policy acquisition | 1,119 | 208 | 330 | 81 | 1,738 | 394 | 225 | 238 | 857 | - | 2,595 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| costs |  |  |  |  |  |  |  |  |  |  |  |


| Investment income | 486 | 486 |
| :---: | :---: | :---: |
| Net realized |  |  |
| investment gains | 145 | 145 |
| (losses) |  |  |
| Interest expense | (244 | ) (244 |
| Income (loss) | \$ (1,4 | \$512 |

The Company discontinued offering non-standard personal automobile policies in the first half of 2015, but will continue to pay claims and perform other administrative services as needed until the run-off of the claims on such policies is complete. No premiums were written or earned in the non-standard personal automobile line in 2016. The decision to stop writing non-standard personal automobile policies was the result of the Company's change in strategic positioning and its desire to increase its personal homeowners product line and pursue existing commercial line opportunities.

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

For the Periods ended March 31, 2016 and 2015

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 form 10-K, filed on March 15, 2016 with the U. S. Securities and Exchange Commission ("SEC").
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 $21 E$ 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, 2016 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, we are licensed to write insurance as an admitted carrier in 29 states 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 and commission income from SIA's $50 \%$ owned insurance agency in South Carolina (the "Affiliate"). The Affiliate places small commercial risks mainly for alarm and security guard markets.
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 lines, we offer coverage for both commercial property and commercial liability. Within these two main lines we offer coverage for property, commercial multi-peril as part of commercial property and general liability and liquor liability as a part of our commercial liability. 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 lines, we offer nonstandard homeowners insurance and dwelling fire insurance products ("low-value dwelling") to individuals in four states. Our low-value dwelling insurance line is comprised of dwelling insurance tailored for owners of lower valued homes, which is currently offered in Illinois, Indiana, Texas and Louisiana. Our wind-exposed homeowners line includes homeowners coverage exposed to hurricanes and other significant wind perils to underserved homeowners in Florida, Hawaii, and Texas.

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, 2016, there were no

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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, 2016.

Non-GAAP Financial Measures

Statutory Capital and Surplus
Statutory capital and surplus is a non-GAAP (accounting principles generally accepted in the United States -"GAAP") measure. The Company's insurance subsidiaries' aggregate statutory capital and surplus was $\$ 69.9$ million and $\$ 71.2$ million at March 31, 2016 and December 31, 2015, respectively.

Operating Income and Operating Income Per Share
Operating income and 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. The most directly comparable financial GAAP measures to operating income and operating income per share are net income and net income per share, respectively. Operating income and operating income per share are intended as supplemental information and are not meant to replace net income or net income per share. Operating income and operating income per share should be read in conjunction with the GAAP financial results. Our definition of operating income may be different from that used by other companies. The following is a reconciliation of net income to operating income (dollars in thousands), as well as net income per share to operating income per share:

Net income (loss) allocable to common shareholders
Net realized gains (losses), net of tax
Net operating income (loss) allocable to common shareholders
Weighted average common shares basic and diluted
Basic and diluted income (loss) per common share:
Net income (loss) per share
Net realized gains, net of tax, per share
Net operating income (loss) per share

| Three Months |
| :---: |
| Ended Mar |
| 20162015 |
| (in thousands, except share and |
|  |  |
|  |
| \$ 2,028 ) \$ 250 |
| $(8) 145$ |
| \$ 2,020 ) \$ 105 |
| 7,638,7804,040,872 |
| \$(0.27 ) \$ 0.06 |
| 0.04 |
| \$(0.27 ) \$ 0.02 |

We use operating income and operating income per share to assess our performance and to evaluate the results of our business. We believe these measures provide investors with valuable information relating to our ongoing performance that may be obscured by 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. Realized gains and losses may vary significantly between periods and are generally driven by external economic developments, such as capital market conditions. Accordingly, 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 operating income and operating income per share, along with net income and net income per share, when reviewing and evaluating our performance.

## Executive Overview

The Company reported a net loss of $\$ 2.0$ million for the three months ended March 31, 2016, compared to net income of $\$ 512,000$ for the same period in 2015.
Net loss allocable to common shareholders was $\$ 2.0$ million, or $\$ 0.27$ per share, for the three months ended March 31, 2016, compared to net income of $\$ 250,000$, or $\$ 0.06$ per share, for the same periods in 2015.

Operating loss allocable to common shareholders was $\$ 2.0$ million, or $\$ 0.27$ per share, for the three months ended March 31, 2016. This compares to operating income allocable to common shareholders of $\$ 105,000$, or $\$ 0.02$ per share, for the same period in 2015.
Our combined ratio was $112.2 \%$ for the three months ended March 31, 2016, compared to $99.2 \%$ for the same period in 2015.
The loss for the three months ended March 31, 2016 was largely attributable to management's decision to strengthen reserves in our personal automobile, commercial automobile and Florida homeowners businesses. In addition, the increase in expenses was due to the hiring of new underwriting personnel in commercial and personal lines, and other incremental hiring and infrastructure investments necessary to support the Company's growth and public company status.
Our premium results for the three months ended March 31, 2016, reflect the continued expansion of our commercial lines and repositioning of our personal lines. Our commercial lines gross written premiums organically grew by $21.6 \%$ in the three months ended March 31, 2016, as compared to the same period in 2015. In addition, our personal lines gross written premiums grew $14.4 \%$ for the three months ended March 31, 2016, compared to the same period in 2015. The increase in the first quarter was generated from the Company's expansion in the hospitality, security services, low-value dwelling and wind-exposed homeowners lines of business.
Results of Operations For The Three Months Ended March 31, 2016 and 2015
The following table summarizes our operating results for the periods indicated (dollars in thousands):
Summary of Operating Results

Gross written premiums
Net written premiums
Net earned premiums
Other income
Losses and loss adjustment expenses, net
Policy acquisition costs
Operating expenses
Underwriting gain (loss)
Net investment income
Net realized investment gains (losses)
Interest expense
Income (loss) before equity earnings in affiliate and income taxes
Equity earnings (losses) of affiliates, net of tax
Income tax expense (benefit)
Net income (loss)

| $\begin{array}{llll}\text { Three Months Ended } \\ \text { March 31, }\end{array}$ |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- |
| 2016 | 2015 | $\$$ | $\%$ |  |
|  |  | Change | Change |  |
| $\$ 25,393$ | $\$ 21,204$ | $\$ 4,189$ | 19.8 | $\%$ |
| $\$ 22,050$ | $\$ 13,666$ | $\$ 8,384$ | 61.3 | $\%$ |
| $\$ 20,109$ | $\$ 14,493$ | $\$ 5,616$ | 38.7 | $\%$ |
| 245 | 489 | $(244$ | $)$ | $(49.9$ |
| 12,699 | 8,570 | 4,129 | 48.2 | $\%$ |
| 6,003 | 2,595 | 3,408 | 131.3 | $\%$ |
| 4,139 | 3,692 | 447 | 12.1 | $\%$ |
| $(2,487$ | 125 | $(2,612$ | $*$ |  |
| 537 | 486 | 51 | 10.5 | $\%$ |
| $(8$ | 145 | $(153$ | $)$ | $(105.5) \%$ |
| 157 | 244 | $(87$ | $)$ | $(35.7$ |$) \%$

Underwriting Ratios:
Loss ratio (1) $62.4 \quad \% \quad 57.2 \quad \%$
Expense ratio (2)
Combined ratio (3)

| 49.8 | \% | 42.0 | $\%$ |
| :--- | :--- | :--- | :--- |
| 112.2 | \% | 99.2 | $\%$ |

(1) The loss ratio is the ratio, expressed as a percentage, of net losses and loss adjustment expenses to net earned premiums and other income.
(2) The expense ratio is the ratio, expressed as a percentage, of policy acquisition costs and operating expenses to net earned premiums and other income.
(3) 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. 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, 2016 and 2015 (dollars in thousands): Summary of Premium Revenue

Three Months
Ended March 31,
$20162015 \quad$ \$ $\quad$ Change Change

Gross written premiums
Commercial lines $\quad \$ 19,144 \$ 15,742$ \$3,402 $21.6 \%$
$\begin{array}{lllll}\text { Personal lines } & 6,249 & 5,462 & 787 & 14.4 \%\end{array}$
Total
\$25,393 \$21,204 \$4,189 19.8 \%

Net written premiums
Commercial lines $\quad \$ 16,986 \quad \$ 9,854 \quad \$ 7,132 \quad 72.4 \%$
Personal lines $\quad 5,064 \quad 3,812 \quad 1,252 \quad 32.8 \%$
Total
\$22,050 \$13,666 \$8,384 61.3 \%

Net Earned premiums
Commercial lines $\quad \$ 15,279 \quad \$ 9,488 \quad \$ 5,791 \quad 61.0 \%$
Personal lines $\quad 4,830 \quad 5,005 \quad(175)(3.5) \%$
Total \$20,109 \$14,493 \$5,616 $38.7 \%$

Gross written premiums increased $\$ 4.2$ million, or $19.8 \%$, to $\$ 25.4$ million for the three months ended March 31 , 2016, as compared to $\$ 21.2$ million for the same period in 2015 . The increase was driven by continued growth in both our commercial and personal lines business which reflects the execution of our growth initiatives in the niche commercial insurance markets and our strategic change in the mix of business of our personal lines.
Commercial lines gross written premiums increased $\$ 3.4$ million, or $21.6 \%$, to $\$ 19.1$ million in the first quarter of 2016, as compared to $\$ 15.7$ million for the first quarter of 2015 . This increase was primarily driven by the commercial multi-peril and other liability business which grew $25.5 \%$ and $48.0 \%$, respectively, compared to the same period in 2015.

Personal lines gross written premiums increased $\$ 787,000$, or $14.4 \%$, to $\$ 6.2$ million in the first quarter of 2016 , as compared to $\$ 5.5$ million for the same period in 2015 . The increase was driven by our low-value dwelling and wind-exposed homeowners business which grew $45.5 \%$ and $28.4 \%$, respectively, compared to the same period in 2015. The growth in these lines was partially offset by a reduction in gross written premiums in the personal automobile business which is in run-off.
Net written premiums increased $\$ 8.4$ million, or $61.3 \%$, to $\$ 22.1$ million for the three months ended March 31 , 2016, as compared to $\$ 13.7$ million for the same period in 2015 . This increase was driven by the growth in the gross written premiums as well as the termination of a quota share reinsurance agreement which occurred on August 1, 2015. The quota share arrangement was terminated as management determined the Company no longer needed the leverage support of this reinsurance arrangement due to the added capital raised from the IPO. Excluding the 2015 impact of the quota share reinsurance the net written premiums for the three months ended March 31, 2016, net written premiums increased $\$ 3.6$ million, or $19.2 \%$, compared to the same period in 2015 . This result is consistent with the $19.8 \%$ increase in gross written premiums.
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 or 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, 2016 decreased $\$ 244,000$, or $49.9 \%$, to $\$ 245,000$ as compared to $\$ 489,000$ for the same period in 2015. The decrease was due to the deconsolidation of the Affiliate.
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, 2016 and 2015 (dollars in thousands).

| Three Months Ended March 31, 2016 | Commercial Lines | Personal Lines | Total |  |
| :---: | :---: | :---: | :---: | :---: |
| Accident year net losses and LAE | \$ 8,279 | \$2,832 | \$11 |  |
| Net (favorable) adverse development | 356 | 1,232 | 1,588 |  |
| Calendar year net loss and LAE | \$8,635 | \$4,064 | \$12, |  |
| Accident year loss ratio | 53.8 \% | 57.1 \% | \% 54.6 | \% |
| Net (favorable) adverse development | 2.3 \% | 24.8 \% | \% 7.8 | \% |
| Calendar year loss ratio | 56.1 \% | 81.9 \% | \% 62.4 | \% |


| Three Months Ended March 31, 2015 | Commercial Lines | Personal Lines | Total |  |
| :---: | :---: | :---: | :---: | :---: |
| Accident year net losses and LAE | \$ 5,374 | \$3,161 | \$8,53 |  |
| Net (favorable) adverse development | (57 | 92 | 35 |  |
| Calendar year net loss and LAE | \$ 5,317 | \$3,253 | \$8,570 |  |
| Accident year loss ratio | 54.6 \% | 61.6 \% | 57.0 | \% |
| Net (favorable) adverse development | (0.5 )\% | 1.8 \% | 0.2 | \% |
| Calendar year loss ratio | 54.1 \% | 63.4 \% | \% 57.2 | \% |

Net losses and LAE increased by $\$ 4.1$ million, or $48.2 \%$, for the three months ended March 31, 2016, as compared to the same period in 2015. The calendar year loss ratios were $62.4 \%$ and $57.2 \%$ for the three months ended March 31, 2016 and 2015, respectively. The 5.2 percentage point increase in our loss ratio was primarily attributable to the reserve strengthening in our commercial automobile, Florida homeowners business, and personal automobile lines. Overall reserve development on prior accident years in the first quarter of 2016 was $\$ 1.6$ million of adverse development, or 7.8 percentage points on the loss ratio. In the first quarter of 2016 , there was $\$ 858,000, \$ 840,000$, and $\$ 547,000$ of adverse reserve development in the commercial automobile, wind-exposed homeowners and personal automobile lines, respectively. This adverse development was partially offset by $\$ 271,000$ and $\$ 253,000$ of favorable reserve development in the commercial multi-peril and worker's compensation lines, respectively.
Total reserve development on prior accident years in the first quarter of 2015 was slightly adverse by $\$ 35,000$, or 0.2 percentage points.

## 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.

Three Months<br>Ended March<br>31,<br>20162015

Commercial Lines
Policy acquisition costs $28.5 \% 17.7 \%$
Operating expenses $11.3 \% 15.0 \%$
Total $\quad 39.8 \% ~ 32.7 \%$

Personal Lines
Policy acquisition costs $32.5 \% 16.7 \%$
Operating expenses $\quad 13.5 \% 8.0 \%$
Total $\quad 46.0 \% ~ 24.7 \%$

Corporate and Other
Operating expenses $8.5 \% 12.1 \%$
Total $\quad 8.5 \% 12.1 \%$

Consolidated
Policy acquisition costs $29.5 \% 17.3 \%$
Operating expenses $\quad 20.3 \% 24.7 \%$
Total $49.8 \% 42.0 \%$
Our expense ratio increased 7.8 percentage points in the three months ended March 31, 2016, as compared to the same period in 2015. The increase in expenses was mainly due to the hiring of new underwriting managers in commercial and personal lines, and other incremental hiring and infrastructure investments necessary to support the Company's growth and public company status.
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, 2016 and 2015, the percentage of policy acquisition costs to net earned premiums and other income were approximately $29.5 \%$ and $17.3 \%$, respectively. The increase in the policy acquisition cost ratio was primarily driven by the termination of the $25 \%$ quota share reinsurance arrangement in which we received a $37 \%$ ceding commission on the ceded premiums. The ceding commission reduced commission expense included in policy acquisition costs for the first quarter of 2015 . Because the ceding commission did not exist in 2016 the acquisitions cost ratio was higher for the first quarter of 2016.
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 $20.3 \%$ and $24.7 \%$ for the three months ended March 31, 2016 and 2015, respectively. The most significant change driving the reduction in the operating expense ratio was the elimination of the quota share arrangement, which lowered net earned premium in the first quarter of 2015 and generated a higher operating expense ratio for the first quarter of 2015.

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## 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, 2016 and 2015 (dollars in thousands):
Underwriting Gain (Loss)

|  | Three Months <br> Ended March 31, |  |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
|  | 2016 | 2015 | $\$$ <br> Change | $\%$ <br> Change |  |  |
|  |  |  |  |  |  |  |
| Commercial Lines |  |  |  |  |  |  |
| Commercial multi-peril | $\$ 1,006$ | $\$ 501$ | $\$ 505$ | 100.8 | $\%$ |  |
| Other liability | $(80$ | $)$ | 344 | $(424$ | $)$ | $(123.3) \%$ |
| Commercial automobile | $(697$ | $)$ | 106 | $(803$ | $)$ | $*$ |
| Other | 391 | 359 | 32 | 8.9 | $\%$ |  |
| Total | $\$ 620$ | $\$ 1,310$ | $\$(690$ | $)$ | $(52.7$ | $) \%$ |

Personal Lines
Low-value dwelling $\quad \$(204)$ ) $\$ 184 \quad \$(388$ ) *
Wind-exposed homeowners (606 ) 882 (1,488 ) *
Personal automobile (576 ) (456 ) (120 ) 26.3 \%
Total $\$(1,386) \$ 610$ \$ $(1,996)$ *
Corporate and Other (1,721) (1,795) 74 (4.1 )\%
Total $\quad \$(2,487) \$ 125 \quad \$(2,612)$ *

* Percentage change is not meaningful

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## Liquidity and Capital Resources

Sources and Uses of Funds
At March 31, 2016, we had $\$ 21.0$ 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 and the $\$ 13.0$ million available under our revolving credit line 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. Secondarily, 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, 2016. Cash Flows
Operating Activities. Cash provided by operating activities for the three months ended March 31, 2016, was $\$ 3.0$ million as compared to $\$ 1.4$ million used by operating activities for the same period in 2015. The increase in cash provided by operations was attributable to the overall growth of the business.
Investing Activities. Cash used in investing activities for the three months ended March 31, 2016, was $\$ 105,000$ as compared to $\$ 864,000$ provided by investing activities for the same period in 2015. The fluctuation in the funds used in routine investing activities correlates with the growth in the Company's business. We continue to invest in additional securities as premiums are collected faster than claims are paid out.
Financing Activities. Cash provided by financing activities for the three months ended March 31, 2016, was $\$ 269,000$ as compared to $\$ 1.3$ million for the same period in 2015. There was $\$ 750,000$ of common capital raised in the first quarter of 2015, and no capital raises in the first quarter of 2016.
Outstanding Debt
The Company's senior debt facility is comprised of three notes: a $\$ 17.5$ million revolving line of credit ("Revolver"); 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"). Our total senior debt at March 31, 2016, was \$13.3 million. Our minimum principal and interest payments on our senior debt for the remaining nine months of 2016 is estimated to be $\$ 6.2$ million, $\$ 5.7$ million for 2017-2018, and $\$ 2.0$ million for 2019-2020. Refer to Note $7 \sim$ Senior Debt of the Notes to the consolidated financial statements, for additional information regarding our outstanding debt. Recently Issued Accounting Pronouncements
Refer to Note $1 \sim$ 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, 2016. Our market risk sensitive instruments are primarily related to our fixed-income securities.
Interest Rate Risk
At March 31, 2016, the fair value of our investment portfolio, excluding cash and cash equivalents, was $\$ 119.2$ 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, 2016 and December 31, 2015, was approximately 3.1 years.
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, 2016. 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

Estimated
Percentage
Increase (Decrease)
in
Hypothetical Change in Interest Rates Estimated Change in Shareholders'
As of March 31, 2016
200 basis point increase
100 basis point increase
No change
100 basis point decrease
200 basis point decrease

| Fair | Fair | Fair | Equity |  |
| :---: | :---: | :---: | :---: | :---: |
| Value | Value | Value |  |  |
| \$ 108,039 | \$ (6,774 | ) $(5.9) \%$ |  | )\% |
| 111,369 | (3,444 | ) (3.0)\% | (4.9 | )\% |
| 114,813 | - | - \% |  | \% |
| 117,798 | 2,985 | 2.6 \% |  | \% |
| 118,717 | 3,904 | 3.4 \% |  | \% |

## Credit Risk

An additional exposure to our fixed-income securities portfolio is credit risk. We manage our credit risk by investing only 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, 2016, the net amount due to the Company from reinsurers, including prepaid reinsurance, was $\$ 10.0$ 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, 2016. 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, 2016. Changes in Internal Control over Financial Reporting
There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended March 31, 2016 that have materially affected, or are reasonably 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 $12 \sim$ 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, 2016, 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, 2016.

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

The proceeds from our IPO have been fully deployed in compliance with the purposes as described in our final prospectus filed with the SEC on August 13, 2015 pursuant to Rule 424(b)(4).

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 over a one-year period. Under this program, management is 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 will be determined by management in its discretion and will depend on a number of factors, including the market price of the Company's stock, general market conditions, and other factors. Repurchases may be made from time to time, without prior notice. The Company may suspend or discontinue the program at any time.
Issuer purchase of Equity Securities

Period of purchases

| February 25, 2016 to February 29, 2016 | - |  | program | 2,100 |  |
| :---: | :--- | :--- | :--- | :--- | :--- |
| March 1, 2016 to March 31, 2016 | 33,833 | $\$ 6.84$ | - | 33,833 | $\$ 1,869$ |
| Total First Quarter 2016 | 33,833 | 6.84 | 33,833 |  |  |

ITEM 6. EXHIBITS

| Exhibit <br> Number | Exhibit Description |
| :--- | :--- |
| 31.1 | Section 302 Certification - CEO |
| 31.2 | Section 302 Certification - CFO |
| $32.1^{*}$ | Section 906 Certification - CEO |
| $32.2^{*}$ | Section 906 Certification - CFO |

101.INS XBRL Instance Document
101.SCH SBRL Taxonomy Extension Schema Document
101.CALXBRL 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 12, 2016

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