



**Conifer
Holdings
Inc.**

NEWS RELEASE

Conifer Holdings Reports 2017 Second Quarter Financial Results

2017-08-09

BIRMINGHAM, Mich., Aug. 09, 2017 (GLOBE NEWSWIRE) -- **Conifer Holdings, Inc.** (Nasdaq:CNFR) (“Conifer” or the “Company”) today announced results for the second quarter ended June 30, 2017.

Second Quarter 2017 Highlights (all comparisons to prior year period)

- Gross written premiums decreased by 9.2% to \$27.0 million
- Net earned premiums increased 13% to \$24.5 million
- Combined ratio was 110.4%, compared to 109.7% in the prior year period and 109.1% in the first quarter of 2017.
- Net loss of \$1.1 million, or \$0.14 per diluted share based on 7.6 million weighted average common diluted shares outstanding.

Management Comments

James Petcoff, Chairman and CEO, commented, “For the second quarter of 2017, we continued the efforts begun in the first quarter of deemphasizing the lines of business where the underwriting performance has not been aligned with our goals. Because of this shift, gross written premiums in both our commercial and personal lines of business were negatively impacted overall, but this decline was primarily offset by growth in our core specialty niche insurance products such as liquor liability and security guards. We are positioning the Company for favorable long-term underwriting performance and expect to see a return to our historical growth trends in the coming quarters.”

Mr. Petcoff continued, “The second quarter did include higher than anticipated losses (mainly surrounding

our personal lines business and more specifically Florida homeowners). We have been proactive in taking the necessary steps to properly address and resolve the issues causing these losses, and hope to minimize its affect as soon as possible. For the quarter, we reported continued improvements in our expense ratio (43.4% in the second quarter of 2017) that we believe provide a solid indicator of the underwriting potential for our business.”

2017 Second Quarter Financial Results Overview

	At and for the Three Months Ended June 30,			At and for the Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
(dollars in thousands, except share and per share amounts)						
Gross written premiums	\$ 26,981	\$ 29,725	-9.2%	\$ 53,455	\$ 55,118	-3.0%
Net written premiums	23,082	26,176	-11.8%	45,407	48,226	-5.8%
Net earned premiums	24,497	21,675	13.0%	48,637	41,784	16.4%
Net investment income	663	528	25.6%	1,240	1,065	16.4%
Net realized investment gains	-	541	**	(8)	533	**
Other gains	750	-	**	750	-	**
Net income (loss)	(1,067)	(513)	**	(2,866)	(2,541)	**
Net income (loss) per share, diluted	\$ (0.14)	\$ (0.07)		\$ (0.38)	\$ (0.33)	
Adjusted operating income (loss)*	(2,098)	(1,639)	**	(3,889)	(3,659)	**
Adjusted operating income (loss) per share, diluted*	\$ (0.28)	\$ (0.22)		\$ (0.52)	\$ (0.48)	
Book value per common share outstanding	\$ 8.64	\$ 10.03		\$ 8.64	\$ 10.03	
Weighted average shares outstanding, basic and diluted	7,633,069	7,594,862		7,633,069	7,616,821	
Underwriting ratios:						
Loss ratio (1)	67.0%	61.7%		65.7%	62.0%	
Expense ratio (2)	43.4%	48.0%		44.2%	48.9%	
Combined ratio (3)	<u>110.4%</u>	<u>109.7%</u>		<u>109.9%</u>	<u>110.9%</u>	

* The "Definitions of Non-GAAP Measures" section of this release defines and reconciles data that are not based on

generally accepted accounting principles.

** Percentage is not meaningful

(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.

Second Quarter 2017 Premiums

Gross Written Premiums

Gross written premiums decreased 9.2% in the second quarter of 2017 to \$27.0 million, compared to \$29.7 million in the prior year period, largely due to a 32.8% reduction in wind-exposed homeowners line of business compared to the prior year period.

Net Written Premiums

Net written premiums were \$23.0 million in the second quarter of 2017, compared to \$26.2 million in the prior year period. This decrease was caused by a lower volume of gross written premiums compared to the prior year period.

Net Earned Premiums

Net earned premiums increased 13.0% to \$24.5 million for the second quarter of 2017, compared to \$21.7 million for the prior year period. This was largely due to a 21.9% increase in net earned premiums in the commercial lines business compared to the prior year period.

Commercial Lines Financial and Operational Review

Commercial Lines Financial Review

Three Months Ended June 30,

Six Months Ended June 30,

	<u>2017</u>	<u>2016</u>	<u>% Change</u>	<u>2017</u>	<u>2016</u>	<u>% Change</u>
(dollars in thousands)						
Gross written premiums	\$ 21,106	\$ 22,821	-7.5%	\$ 42,750	\$ 41,965	1.9%
Net written premiums	18,916	20,548	-7.9%	38,395	37,536	2.3%
Net earned premiums	20,094	16,484	21.9%	39,782	31,763	25.2%
Underwriting ratios:						
Loss ratio	58.1%	56.4%		60.4%	56.3%	
Expense ratio	36.7%	36.1%		37.2%	37.9%	
Combined ratio	<u>94.8%</u>	<u>92.5%</u>		<u>97.6%</u>	<u>94.2%</u>	
Contribution to combined ratio from net (favorable) adverse prior year development						
	<u>12.1%</u>	<u>4.7%</u>		<u>13.2%</u>	<u>3.6%</u>	
Accident year combined ratio (1)	<u>82.7%</u>	<u>87.8%</u>		<u>84.4%</u>	<u>90.6%</u>	

(1) The accident year combined ratio is the sum of the loss ratio and the expense ratio, less changes in net ultimate loss estimates from prior accident year loss reserves. The accident year combined ratio provides management with an assessment of the specific policy year's profitability and assists management in their evaluation of product pricing levels and quality of business written.

The Company's commercial lines of business, which represented 78% of total gross written premiums in the second quarter of 2017, primarily consists of property, liability and other miscellaneous coverage offered to owner-operated small and mid-sized businesses, professional organizations and hospitality businesses such as restaurants, bars and taverns.

Commercial lines gross written premiums decreased by 7.5% to \$21.1 million in the second quarter of 2017. This was largely due to a 6.7% decrease in the gross written premiums for the hospitality lines of business compared to the prior year period.

Mainly as a result of the reserve strengthening in the commercial property & liability lines, the commercial lines combined ratio was 94.8% for the second quarter of 2017, compared to 92.5% in the prior year period. Excluding the contribution to the combined ratio from prior year adverse development, the accident year combined ratio on commercial lines for the quarter, was 82.7%.

Personal Lines Financial and Operational Review

Personal Lines Financial Review

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
(dollars in thousands)						
Gross written premiums	\$ 5,875	\$ 6,904	-14.9%	\$ 10,705	\$ 13,153	-18.6%
Net written premiums	4,166	5,628	-26.0%	7,012	10,690	-34.4%
Net earned premiums	4,403	5,191	-15.2%	8,855	10,021	-11.6%
Underwriting ratios:						
Loss ratio	107.5%	78.0%		89.1%	79.9%	
Expense ratio	44.2%	44.8%		44.0%	45.5%	
Combined ratio	<u>151.7%</u>	<u>122.8%</u>		<u>133.1%</u>	<u>125.4%</u>	
Contribution to combined ratio from net (favorable) adverse prior year development	<u>39.9%</u>	<u>13.5%</u>		<u>22.5%</u>	<u>18.9%</u>	
Accident year combined ratio	<u>111.8%</u>	<u>109.3%</u>		<u>110.6%</u>	<u>106.5%</u>	

Personal lines, which consist of low-value dwelling and wind-exposed homeowners insurance, represented 22% of total gross written premiums for the second quarter of 2017. Personal lines gross written premiums decreased 14.9% to \$5.9 million in the second quarter of 2017 compared to the prior year period. This was mainly due to a 32.8% decline in wind-exposed homeowners gross written premiums due to a reduction in exposure in the Florida and Texas businesses. Conifer's low-value dwelling products gross written premiums increased by 16.0% during the second quarter of 2017, compared to the prior year period.

During the second quarter of 2017, the Company increased its reserves in its Florida homeowners business, which contributed to a personal lines loss ratio for the quarter of 107.5%. The Company has reduced exposure, ceased seeking additional growth in this market and has begun to examine potential strategic options for the Florida homeowners business. The Company reported a combined ratio in personal lines of 151.7% in the second quarter of 2017, compared to 122.8% in the prior year period.

Combined Ratio Analysis

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016

(dollars in thousands)

Underwriting ratios:				
Loss ratio	67.0%	61.7%	65.7%	62.0%
Expense ratio	43.4%	48.0%	44.2%	48.9%
Combined ratio	110.4%	109.7%	109.9%	110.9%
Contribution to combined ratio from net (favorable) adverse prior year development	17.2%	6.9%	14.9%	7.3%
Accident year combined ratio	93.2%	102.8%	95.0%	103.6%

Combined Ratio

The Company's combined ratio was 110.4% for the three months ended June 30, 2017, compared to 109.7% for the same period in 2016.

Excluding additional reserve strengthening, the 2017 second quarter accident year combined ratio was 93.2%, compared to 102.8% in the prior year period.

- **Loss Ratio:** The Company's loss ratio was impacted by an increase of reserves in the Florida homeowners, commercial property and commercial liability lines of business. The Company continues to tighten underwriting guidelines, increase rates, and selectively write in the most profitable geographies. For the second quarter of 2017, the Company's loss ratio was 67.0%, compared to 61.7% in the prior year period.
- **Expense Ratio:** The expense ratio was 43.4% for the second quarter of 2017, compared to 48.0% in the prior year period, marking the sixth consecutive quarter over quarter improvement as the Company continues to leverage the infrastructure investments necessary to support the Company's continued growth rate. The Company believes this ratio will continue to decline over time as the Company grows to efficient operating scale.

The table below details the impact of the reserve strengthening on the Company's loss ratio:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Loss ratio	67.0%	61.7%	65.7%	62.0%
Less loss ratio impact from:				
Florida homeowners reserve strengthening	5.3%	3.2%	3.3%	3.4%
Commercial automobile reserve strengthening	1.0%	2.8%	0.7%	3.5%
Commercial liability reserve development	6.4%	0.0%	5.9%	0.0%
Commercial property reserve development	2.5%	0.0%	4.6%	0.0%
Personal automobile; in run-off	-0.8%	-0.3%	0.0%	1.2%
Other net reserve (favorable) development	2.8%	1.2%	0.4%	-0.8%
Accident year loss ratio	49.8%	54.8%	50.8%	54.7%

Net development of reserves for losses incurred in prior accident years for all lines of business had increased the Company's loss ratio for the second quarter of 2017 by 17.2%, largely due to reserve strengthening in the Florida homeowners line of business, as well as liability reserve development from older claims in the hospitality lines.

Net Income (Loss)

In the second quarter of 2017, the Company reported a net loss of \$1.1 million, or \$0.14 per diluted share based on 7.6 million weighted average common diluted shares outstanding, compared to net loss of \$513,000, or \$0.07 per diluted share, based on 7.6 million weighted average common diluted shares outstanding in the prior year period.

Adjusted Operating Income (Loss)

In the second quarter of 2017, the Company reported an adjusted operating loss of \$2.1 million, or \$0.28 per share, compared to adjusted operating loss of \$1.6 million, or \$0.22 per share, for the same period in 2016. See Definitions of Non-GAAP Measures.

Balance Sheet/Investment Overview

June 30, 2017	December 31, 2016
------------------	----------------------

(Unaudited)

(dollars in thousands, except per share amounts)

Cash and invested assets	\$	147,052	\$	141,023
Reinsurance recoverables on paid and unpaid losses		12,475		7,498
Goodwill and intangible assets		997		1,007
Total assets		211,403		203,701
Unpaid losses and loss adjustment expenses		66,917		54,651
Unearned premiums		54,979		58,126
Senior debt		16,375		17,750
Total liabilities		145,436		135,907
Total shareholders' equity		65,967		67,794
Book value per share	\$	8.64	\$	8.88
Net written premium-to-statutory capital and surplus ratio		1.6		1.6
Debt-to-total capitalization ratio		0.2		0.2
Average tax-equivalent book yield		2.3		2.2
Average fixed maturity duration		3.1		3.2

The Company maintains a prudent investment approach with 96% of the portfolio invested in fixed-income securities (with an average credit quality of AA) and short-term investments. Only 4% of the portfolio is invested in equities.

Outlook for the Second Half of 2017

Mr. Petcoff concluded, "We continue to proactively pursue measures to curtail the challenging loss trends we have experienced, particularly in personal lines. We continue to lessen our exposure through limited new policy writing in certain geographic regions, while increasing our business in the areas where our strategic value proposition gives Conifer a tangible advantage over its competitors. We have been pleased to grow the business incrementally throughout this process until this current period, and expect to see a return to historical growth trends in the coming quarters. We are solidly focused on returning to profitability by concentrating on the steady, niche commercial markets Conifer's team has successfully underwritten for decades."

Earnings Conference Call

The Company will hold a conference call/webcast on Thursday, August 10, 2017 at 8:30 a.m. ET to discuss results for the second quarter ended June 30, 2017.

Investors, analysts, employees and the general public are invited to listen to the conference call via:

Webcast: On the Event Calendar at IR.CNFRH.com

Conference Call: 844-868-8843 (domestic) or 412-317-6589 (international)

The webcast will be archived on the Conifer Holdings website and available for replay for at least one year.

About the Company

Conifer Holdings, Inc. is a Michigan-based insurance holding company formed in 2009. Through its subsidiaries, Conifer offers customized insurance coverage solutions in both specialty commercial and specialty personal product lines marketing mainly through independent agents in all 50 states. The Company completed its initial public offering in August 2015 and is traded on the Nasdaq Global Market (Nasdaq:CNFR). Additional information is available on the Company's website at www.CNFRH.com.

Definitions of Non-GAAP Measures

Conifer prepares its public financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Statutory data is prepared in accordance with statutory accounting rules as defined by the National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual, and therefore is not reconciled to GAAP data.

We believe that investors' understanding of Conifer's performance is enhanced by our disclosure of adjusted operating income. Our method for calculating this measure may differ from that used by other companies and therefore comparability may be limited. We define adjusted operating income (loss), a non-GAAP measure, as net income (loss) excluding net realized investment gains and losses, and other gains and losses, after-tax, and excluding the tax impact of changes in unrealized gains and losses. We use adjusted operating income as an internal performance measure in the management of our operations because we believe it gives our management and other users of our financial information useful insight into our results of operations and our underlying business performance.

Reconciliations of adjusted operating income and adjusted operating income per share:

Three Months Ended June 30,		Six Months Ended June 30,	
2017	2016	2017	2016

(dollars in thousands, except share and per share amounts)

Net income (loss)	\$	(1,067)	\$	(513)	\$	(2,866)	\$	(2,541)
Net realized gains and other gains (losses), net of tax		750		541		742		533
Tax effect of investment unrealized gains and losses		281		585		281		585
Adjusted operating income (loss)	<u>\$</u>	<u>(2,098)</u>	<u>\$</u>	<u>(1,639)</u>	<u>\$</u>	<u>(3,889)</u>	<u>\$</u>	<u>(3,659)</u>
Weighted average common shares, diluted		7,633,069		7,594,862		7,633,069		7,616,821
Diluted income (loss) per common share:								
Net income (loss)	\$	(0.14)	\$	(0.07)	\$	(0.38)	\$	(0.33)
Net realized gains and other gains (losses), net of tax		0.10		0.07		0.10	\$	0.07
Tax effect of investment unrealized gains and losses		0.04		0.08		0.04	\$	0.08
Adjusted operating income (loss) per share	<u>\$</u>	<u>(0.28)</u>	<u>\$</u>	<u>(0.22)</u>	<u>\$</u>	<u>(0.52)</u>	<u>\$</u>	<u>(0.48)</u>

Forward-Looking Statement

This press release contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give current expectations or forecasts of future events or our future financial or operating performance, and include Conifer's expectations regarding premiums, earnings, its capital position, expansion, and growth strategies. The forward-looking statements contained in this press release 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, 2017 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.

Conifer Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets
(dollars in thousands, except share data)

	June 30, 2017	December 31, 2016
Assets	(Unaudited)	
Investment securities:		
Fixed maturity securities, at fair value (amortized cost of \$116,418 and \$113,915, respectively)	\$ 116,276	\$ 113,163
Equity securities, at fair value (cost of \$4,456 and \$4,283, respectively)	4,969	4,579
Short-term investments, at fair value	14,944	10,788
Total investments	136,189	128,530
Cash	10,863	12,493
Premiums and agents' balances receivable, net	23,018	24,538
Receivable from affiliate	724	1,751
Reinsurance recoverables on unpaid losses	10,552	6,658
Reinsurance recoverables on paid losses	1,923	840
Ceded unearned premiums	4,103	4,120
Deferred policy acquisition costs	12,649	13,290
Other assets	11,382	11,481
Total assets	\$ 211,403	\$ 203,701
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 66,917	\$ 54,651
Unearned premiums	54,979	58,126
Senior debt	16,375	17,750
Accounts payable and other liabilities	7,165	5,380
Total liabilities	145,436	135,907
Commitments and contingencies	-	-
Shareholders' equity:		
Common stock, no par value (100,000,000 shares authorized; 7,633,069 and 7,633,070 issued and outstanding, respectively)	80,808	80,342
Accumulated deficit	(14,334)	(11,468)
Accumulated other comprehensive loss	(507)	(1,080)
Total shareholders' equity	65,967	67,794
Total liabilities and shareholders' equity	\$ 211,403	\$ 203,701

Conifer Holdings, Inc. and Subsidiaries
Consolidated Statements of Operations (Unaudited)
(dollars in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue				
Premiums				
Gross earned premiums	\$ 28,338	\$ 25,258	\$ 56,602	\$ 48,804
Ceded earned premiums	(3,841)	(3,583)	(7,965)	(7,020)
Net earned premiums	24,497	21,675	48,637	41,784
Net investment income	663	528	1,240	1,065
Net realized investment gains (losses)	-	541	(8)	533
Other gains	750	-	750	-
Other income	372	283	726	528
Total revenue	26,282	23,027	51,345	43,910
Expenses				
Losses and loss adjustment expenses, net	16,674	13,541	32,407	26,240
Policy acquisition costs	6,428	6,014	12,900	12,017
Operating expenses	4,370	4,536	8,900	8,675
Interest expense	219	143	443	300
Total expenses	27,691	24,234	54,650	47,232
Income (loss) before equity earnings and income taxes	(1,409)	(1,207)	(3,305)	(3,322)
Equity earnings of affiliates, net of tax	60	71	164	158
Income tax benefit	(282)	(623)	(275)	(623)
Net income (loss)	<u>(1,067)</u>	<u>(513)</u>	<u>(2,866)</u>	<u>(2,541)</u>
Earnings (loss) per common share, basic and diluted	\$ (0.14)	\$ (0.07)	\$ (0.38)	\$ (0.33)
Weighted average common shares outstanding, basic and diluted	7,633,069	7,594,862	7,633,069	7,616,821

For Further Information:
Jessica Gulis, 248.559.0840
ir@cnfrh.com

Source: Conifer Holdings Inc.