



**Conifer
Holdings
Inc.**

NEWS RELEASE

Conifer Holdings Reports Fourth Quarter and Full Year 2015 Results

2016-02-22

BIRMINGHAM, Mich., Feb. 22, 2016 (GLOBE NEWSWIRE) -- **Conifer Holdings, Inc.** (Nasdaq:CNFR) today announced results for the fourth quarter and full year 2015.

Full Year 2015 Highlights

- Gross written premiums up 11.8% to \$93.8 million, compared to 2014
- Net written premiums up 20.2% to \$79.7 million, compared to 2014
- Combined ratio of 102.1%; 11.7 percentage points improvement from 2014
- Book value per share of \$10.11 with shareholders' equity of \$77.3 million
- Net loss of \$0.09 per diluted share
- Operating loss of \$0.16 per diluted share

Fourth Quarter 2015 Highlights

- Gross written premiums down 10.7% to \$25.2 million, compared to 2014
- Net written premiums up 28.7% to \$21.5 million, compared to 2014
- Net loss of \$0.30 per diluted share
- Operating loss of \$0.31 per diluted share

James Petcoff, Chairman and CEO, commented, "Although we are very disappointed in our fourth quarter results, we stand behind the investments we made to expand our underwriting capabilities, grow our

premium base, and reach greater operating efficiency.”

Mr. Petcoff further commented, “Our focus remains long term, on building shareholder value over time. Looking to 2016, we anticipate an improved combined ratio as we grow our premiums, while conservatively managing our overall cost structure.”

Fourth-Quarter and Year-to-Date 2015 Results

| | At and for the Three Months Ended December 31, | | | At and for the Year Ended December 31, | | |
|---|--|-----------|-------------|---|-----------|-------------|
| | 2015 | 2014 | % Change | 2015 | 2014 | % Change |
| (dollars in thousands, except share and per share data) | | | | | | |
| Gross written premiums | \$ 25,245 | \$ 28,267 | (10.7)% | \$ 93,750 | \$ 83,847 | 11.8% |
| Net written premiums | 21,467 | 16,681 | 28.7% | 79,674 | 66,299 | 20.2% |
| Net earned premiums | 19,274 | 16,325 | 18.1% | 66,765 | 57,528 | 16.1% |
| Net investment income | 442 | 352 | 25.6% | 1,902 | 1,175 | 61.9% |
| Net realized investment and other gains | 47 | 151 | (68.9)% | 389 | 417 | (6.7)% |
| Net income (loss) | (2,304) | 32 | ** | (17) | (6,939) | ** |
| Net income (loss) attributable to Conifer | (2,304) | 64 | ** | 64 | (6,935) | ** |
| Net income (loss) allocable to common shareholders | (2,304) | (158) | ** | (476) | (7,200) | ** |
| Net income (loss) per share, diluted | \$ (0.30) | \$ (0.05) | | \$ (0.09) | \$ (2.69) | |
| Operating income (loss) allocable to common shareholders* | (2,351) | (309) | ** | (865) | (7,617) | ** |
| Operating income (loss) per share, diluted* | \$ (0.31) | \$ (0.10) | | \$ (0.16) | \$ (2.85) | |
| Book value per common share outstanding, diluted | \$ 10.11 | \$ 11.05 | | \$ 10.11 | \$ 11.05 | |
| Weighted average shares outstanding, basic and diluted | 7,644,492 | 3,094,459 | | 5,369,960 | 2,672,440 | |

Underwriting ratios:

| | | | | |
|--------------------|---------------|---------------|---------------|---------------|
| Loss ratio (1) | 59.2% | 61.4% | 56.8% | 68.6% |
| Expense ratio (2) | 54.1% | 40.7% | 45.3% | 45.2% |
| Combined ratio (3) | <u>113.3%</u> | <u>102.1%</u> | <u>102.1%</u> | <u>113.8%</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.

Performance Overview

Year to Date

Gross written premiums increased 11.8% for 2015 compared to 2014. Excluding the personal automobile and the Florida homeowners lines, gross written premiums increased by 21.6%. Net written premiums increased 20.2% for the year. We remain focused on strategically growing our business in geographic areas and lines where we can achieve an underwriting profit. As part of our efforts in 2015, we added several experienced underwriting teams to expand our net earned premiums, and we continued the run-off of the unprofitable personal automobile line of business.

The combined ratio improved 11.7 percentage points in 2015 primarily due to an 11.8 percentage point decrease in the loss ratio as the mix of business continues to align with our longer term goals. The factors driving the improvement in the 2015 combined ratio were offset by losses in the personal automobile line of business, which is in run-off, reserve strengthening in the commercial automobile line and increased expenses primarily due to the addition of experienced underwriting teams and corporate staff to support our growth. We do not expect to add any additional underwriting teams in the near term.

Operating loss per diluted share was \$0.16 for 2015, compared to \$2.85 for the same period in 2014. While we are still in an operating loss position, our results have improved dramatically since 2014. We expect that the continued run-off of the personal automobile line will contribute to a diminishing negative effect going forward, and the growing premium base of our expanded underwriting teams will lead to improved profitability in 2016. The Company defines operating income (loss), a non-GAAP measure, as net income (loss) allocable to common shareholders excluding net realized investment gains and losses, and other

gains and losses, after tax.

Fourth Quarter

Gross written premiums decreased 10.7% for the fourth quarter; however, excluding the effects of the personal auto and Florida homeowners lines, gross written premiums increased by 5.6%. Gross written premiums decreased because the personal auto business is in run-off and Florida homeowners premium spiked in the fourth quarter of 2014 due to the timing of a de-population of policies from Citizens Property Insurance of Florida. Net written premiums increased 28.7% mainly due to the termination of the quota share reinsurance treaty in August of 2015 that had been put in place effective December 31, 2014.

Operating loss per diluted share was \$0.31 for the fourth quarter 2015 compared to \$0.10 for the same period in 2014.

Loss Ratio

The Company's 2015 loss ratio was negatively impacted by losses in the personal automobile line of business, which is in run-off, and by increased reserves in the commercial automobile line due to higher than expected frequency and severity of prior year losses. The personal automobile run-off continues as planned with fewer than 275 open claims outstanding at year-end 2015 compared to over 1,100 at year-end 2014. In response to the high commercial automobile loss ratio in 2014, the commercial automobile line went through numerous underwriting adjustments during the course of 2015 such as tightening underwriting guidelines, increasing rates, and selectively writing in the most profitable geographies. These adjustments, coupled with increased reliance on the in-house commercial automobile claims group, are expected to help improve future results. Net reserve development for other lines was slightly favorable for the full year.

The table below details the impact on the Company's loss ratio relating to these items:

| | Three Months Ended | | Year Ended | |
|---|--------------------|-------|--------------|--------|
| | December 31, | | December 31, | |
| | 2015 | 2014 | 2015 | 2014 |
| Loss ratio | 59.2% | 61.4% | 56.8% | 68.6% |
| Impact of personal automobile; in run-off | 3.0% | 7.2% | 3.0% | 4.5% |
| Impact of commercial automobile reserve strengthening | 0.7% | —% | 1.3% | —% |
| Other net reserve adverse (favorable) development | 2.7% | 2.7% | (0.8)% | (1.4)% |

Adjusted loss ratio

| | | | |
|-------|-------|-------|-------|
| 52.8% | 51.5% | 53.3% | 65.5% |
|-------|-------|-------|-------|

Expense Ratio

The full year expense ratio was flat in 2015 compared with 2014, but increased 13.4 percentage points in the fourth quarter 2015 compared to the same period in 2014. The increase in the fourth quarter expense ratio was predominantly related to the personal lines segment, reflecting the lower than anticipated net earned premiums in 2015 in our Florida homeowners line. Competition in this line has grown dramatically in recent quarters. In addition, the run-off personal automobile business incurred underwriting and administrative expenses in the fourth quarter while recognizing minimal earned premiums. We expect the expenses related to this business to diminish significantly in the first quarter of 2016.

In addition, we expanded our underwriting operations with the addition of three experienced underwriting teams. The security guard team was formed in late 2014 and began contributing premium at the beginning of 2015. The low-value dwelling team, located in the southwest United States, was formed in early 2015 and began writing business in May 2015. Finally, the hospitality team that joined us early in the fourth quarter of 2015 did not start binding policies until January 2016. For the year, expenses also increased as we added corporate staff to support the new underwriting teams and manage tasks associated with being a public company.

The combined impact of the two newest underwriting teams and the personal auto operations increased the expense ratio by approximately 5 percentage points in the fourth quarter of 2015.

Commercial Lines Operational Review

| | Three Months Ended December 31, | | | Year Ended December 31, | | |
|------------------------|------------------------------------|----------|------|----------------------------|----------|--------|
| | 2015 | 2014 | % | 2015 | 2014 | % |
| | | Change | | | | Change |
| (dollars in thousands) | | | | | | |
| Gross written premiums | \$17,475 | \$17,343 | 0.8% | \$68,197 | \$55,055 | 23.9% |

| | | | | | | |
|--|--------------|--------------|-------|--------------|---------------|-------|
| Net written premiums | 14,994 | 7,954 | 88.5% | 58,157 | 40,958 | 42.0% |
| Net earned premiums | 14,808 | 11,339 | 30.6% | 48,586 | 35,749 | 35.9% |
| Underwriting ratios: | | | | | | |
| Loss ratio | 53.2% | 48.6% | | 51.8% | 56.2% | |
| Expense ratio | 39.3% | 33.3% | | 34.1% | 37.6% | |
| Combined ratio | <u>92.5%</u> | <u>81.9%</u> | | <u>85.9%</u> | <u>93.8%</u> | |
| Contribution to combined ratio from net (favorable) adverse reserve development | | | | | | |
| | <u>4.3%</u> | <u>2.4%</u> | | <u>0.7%</u> | <u>(3.3)%</u> | |
| Accident year combined ratio | | | | | | |
| | <u>88.2%</u> | <u>79.5%</u> | | <u>85.2%</u> | <u>97.1%</u> | |

Commercial lines gross written premiums grew by 23.9% for 2015. The majority of the year-to-date growth came from the commercial multi-peril and other liability lines, which together grew by 22.1%, largely from expansion in the hospitality and security services product lines. Despite the impact of the reserve strengthening, with the underwriting changes in the commercial auto line mentioned above, the overall commercial lines loss ratio decreased by 4.4 percentage points in 2015, compared to 2014. Furthermore, we experienced improvements in the loss ratios of each of our individual commercial lines in 2015. Additionally, the commercial lines combined ratio for the year improved by 7.9 percentage points overall for 2015.

Personal Lines Operational Review

| | Three Months Ended December 31, | | | Year Ended December 31, | | |
|------------------------|------------------------------------|---------------|-------------|----------------------------|---------------|-------------|
| | 2015 | 2014 | % Change | 2015 | 2014 | % Change |
| (dollars in thousands) | | | | | | |
| Gross written premiums | \$7,770 | \$10,924 | (28.9)% | \$25,553 | \$28,791 | (11.2)% |
| Net written premiums | 6,473 | 8,729 | (25.8)% | 21,517 | 25,341 | (15.1)% |
| Net earned premiums | 4,466 | 4,985 | (10.4)% | 18,179 | 21,779 | (16.5)% |
| Underwriting ratios: | | | | | | |
| Loss ratio | 78.8% | 90.1% | | 70.5% | 88.7% | |
| Expense ratio | 65.4% | 34.1% | | 40.4% | 35.0% | |
| Combined ratio | <u>144.2%</u> | <u>124.2%</u> | | <u>110.9%</u> | <u>123.7%</u> | |

| | | | | |
|---|----------------------|----------------------|----------------------|----------------------|
| Contribution to combined ratio from net (favorable) adverse reserve development | <u>15.1%</u> | <u>(3.9)%</u> | <u>5.9%</u> | <u>—%</u> |
| Accident year combined ratio | <u><u>129.1%</u></u> | <u><u>128.1%</u></u> | <u><u>105.0%</u></u> | <u><u>123.7%</u></u> |

Personal lines gross written premiums declined by 11.2% for 2015, and 28.9% for the fourth quarter 2015, compared to the same periods in 2014. The premium decline was driven by the termination of our personal automobile line in 2015, which saw a \$7.3 million decline in premiums, year over year, for 2015.

Partially offsetting the lower auto premiums was a \$4.1 million increase in premiums for our homeowners line of business. Homeowner premiums grew as a result of strategic underwriting and marketing changes implemented in late 2014. These changes impacted our personal lines mix of business and drove a 40% increase in premiums in our more profitable wind-exposed business.

Balance Sheet/Investment Overview

| | <u>December 31, 2015</u> | <u>December 31, 2014</u> |
|--|---|------------------------------|
| | (Unaudited) (dollars in thousands) | |
| Cash and invested assets | \$ 130,427 | \$ 123,726 |
| Reinsurance recoverables on paid and unpaid losses | 7,044 | 5,139 |
| Goodwill and intangible assets | 1,427 | 2,275 |
| Total assets | 177,927 | 163,738 |
| Unpaid losses and loss adjustment expenses | 35,422 | 31,531 |
| Unearned premiums | 47,916 | 43,381 |
| Senior debt | 12,750 | 27,562 |
| Total liabilities | 100,665 | 113,460 |
| Redeemable preferred stock | — | 6,119 |
| Total shareholders' equity * | 77,262 | 44,159 |
| Net written premium-to-statutory capital and surplus ratio | 1.1 | 1.0 |

| | | |
|------------------------------------|-----|-----|
| Debt-to-total capitalization ratio | 0.1 | 0.4 |
| Average tax-equivalent book yield | 2.0 | 1.7 |
| Average fixed maturity duration | 3.1 | 3.1 |

* In March 2015, the Company reclassified the carrying amount of its preferred stock from temporary equity to permanent equity as the redemption of the preferred stock was changed to be within the Company's control.

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

As of December 31, 2015, 6.5% of the fixed income portfolio was invested in commercial mortgage-backed securities ("CMBS"), almost all in super senior tranches with credit quality of AAA and with 30% credit enhancement.

Conifer completed its initial public offering in August 2015, using the proceeds to pay down \$17.0 million of senior debt and buy back all of the outstanding preferred shares for \$6.3 million. As of December 31, 2015, the Company has \$14.0 million of availability on a line of credit accessible to support future growth and for general corporate purposes.

Conference Call and Supplemental Material

Management will hold an investor conference call/webcast to discuss the results for the fourth quarter and year ended December 31, 2015, and other relevant topics on Tuesday, February 23, at 8:30 a.m. EST. Investors can access the webcast of the call on the Company's website at ir.CNFRH.com or by dialing 888-243-4451 (domestic) or 412-542-4135 (international). Prior to the webcast, a slide presentation pertaining to the results will be available on the Company's website. A replay will be posted to the website after the call.

About the Company

Conifer Holdings, Inc. is a Michigan-based insurance holding company formed in 2009. Through its subsidiaries, Conifer offers insurance coverage in both specialty commercial and specialty personal product lines marketing 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 operating income. Our method for calculating this measure may differ from that used by other companies and therefore comparability may be limited. We define operating income (loss), a non-GAAP measure, as net income (loss) allocable to common shareholders excluding net realized investment gains and losses, and other gains and losses, after-tax. We use 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 operating income and operating income per share:

| | Three Months Ended December 31, | | Year Ended December 31, | |
|---|--|------------------|------------------------------------|-------------------|
| | 2015 | 2014 | 2015 | 2014 |
| (dollar in thousands, except share and per share data) | | | | |
| Net income (loss) allocable to common shareholders | \$ (2,304) | \$ (158) | \$ (476) | \$ (7,200) |
| Net realized investment and other gains, net of tax | 47 | 151 | 389 | 417 |
| Operating income (loss) allocable to common shareholders | <u>\$ (2,351)</u> | <u>\$ (309)</u> | <u>\$ (865)</u> | <u>\$ (7,617)</u> |
| Weighted average common shares, diluted | 7,644,492 | 3,094,459 | 5,369,960 | 2,672,440 |
| Diluted income (loss) per common share: | | | | |
| Net income (loss) per share | \$ (0.30) | \$ (0.05) | \$ (0.09) | \$ (2.69) |
| Net realized gains, net of tax, per share | 0.01 | 0.05 | 0.07 | 0.16 |
| Operating income (loss) per share | <u>\$ (0.31)</u> | <u>\$ (0.10)</u> | <u>\$ (0.16)</u> | <u>\$ (2.85)</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, and these statements are qualified by important risks and uncertainties, many of which are beyond our control, that could cause our actual results to differ materially from those forecasted or indicated by such forward-looking statements. These risks and uncertainties include the occurrence of severe weather conditions and other catastrophes, the cyclical nature of the insurance industry, future actions by regulators, our ability to obtain reinsurance coverage at reasonable rates, the effects of competition and the additional factors set forth in "Risk Factors" in the prospectus included in our registration statement on Form S-1 filed with the Securities and Exchange Commission (the "SEC") on August 12, 2015, and in subsequent reports filed with or furnished to the SEC. Except as may be required by any applicable laws, Conifer assumes no obligation to publicly update such forward-looking statements, which are made as of the date hereof or the earlier date specified herein, whether as a result of new information, future developments or otherwise.

CONIFER HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands, except share data)

| | December 31, | |
|---|---------------------|-------------|
| | 2015 | 2014 |
| Assets | | |
| Investment securities: | | |
| Fixed maturity securities, at fair value (amortized cost of \$107,213 and \$83,768, respectively) | \$107,093 | \$ 84,405 |
| Equity securities, at fair value (cost of \$3,341 and \$2,965, respectively) | 4,240 | 4,084 |
| Short-term investments, at cost or amortized cost (approximates fair value) | 6,391 | 16,749 |
| Total investments | 117,724 | 105,238 |
| Cash | 12,703 | 18,488 |
| Premiums and agents' balances receivable, net | 18,010 | 14,478 |
| Receivable from affiliate | 1,792 | — |
| Reinsurance recoverables on unpaid losses | 5,405 | 3,224 |
| Reinsurance recoverables on paid losses | 1,639 | 1,915 |
| Ceded unearned premiums | 3,483 | 9,510 |
| Deferred policy acquisition costs | 12,102 | 5,679 |
| Other assets | 5,069 | 5,206 |

| | | | |
|---|--|-------------------|-------------------|
| Total assets | | <u>\$ 177,927</u> | <u>\$ 163,738</u> |
| Liabilities and Shareholders' Equity | | | |
| Liabilities: | | | |
| Unpaid losses and loss adjustment expenses | | \$ 35,422 | \$ 31,531 |
| Unearned premiums | | 47,916 | 43,381 |
| Reinsurance premiums payable | | 1,069 | 7,069 |
| Senior debt | | 12,750 | 27,562 |
| Accounts payable and accrued expenses | | 2,758 | 2,521 |
| Other liabilities | | 750 | 1,396 |
| Total liabilities | | <u>100,665</u> | <u>113,460</u> |
| Redeemable preferred stock (0 and 1,000,000 shares authorized; 0 and 60,600 shares issued and outstanding, respectively) | | — | 6,119 |
| Shareholders' equity: | | | |
| Common stock, no par value (100,000,000 and 12,240,000 shares authorized; 7,644,492 and 3,995,013 issued and outstanding, respectively) | | 80,111 | 46,119 |
| Accumulated deficit | | (3,031) | (3,095) |
| Accumulated other comprehensive income | | 182 | 1,158 |
| Total shareholders' equity attributable to Conifer | | <u>77,262</u> | <u>44,182</u> |
| Noncontrolling interest | | — | (23) |
| Total shareholders' equity | | <u>77,262</u> | <u>44,159</u> |
| Total liabilities and shareholders' equity | | <u>\$ 177,927</u> | <u>\$ 163,738</u> |

CONIFER HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(In thousands, except share and per share data)

| | Three Months | | Year Ended | |
|------------------------|---------------------|------------------|---------------------|------------------|
| | Ended | | December 31, | |
| | December 31, | | December 31, | |
| | 2015 | 2014 | 2015 | 2014 |
| Revenue | | | | |
| Premiums | | | | |
| Gross written premiums | \$ 25,245 | \$ 28,267 | \$ 93,750 | \$ 83,847 |
| Net written premiums | <u>\$ 21,467</u> | <u>\$ 16,681</u> | <u>\$ 79,674</u> | <u>\$ 66,299</u> |

| | | | | |
|--|-------------------|-----------------|-----------------|-------------------|
| Gross earned premiums | \$ 23,013 | \$ 19,101 | \$ 89,216 | \$ 66,969 |
| Ceded earned premiums | (3,739) | (2,776) | (22,451) | (9,441) |
| Net earned premiums | 19,274 | 16,325 | 66,765 | 57,528 |
| Net investment income | 442 | 352 | 1,902 | 1,175 |
| Net realized investment gains | 47 | 151 | 285 | 417 |
| Other gains | — | — | 104 | — |
| Other income | 175 | 385 | 1,667 | 1,809 |
| Total revenue | 19,938 | 17,213 | 70,723 | 60,929 |
| Expenses | | | | |
| Losses and loss adjustment expenses, net | 11,523 | 10,253 | 38,882 | 40,730 |
| Policy acquisition costs | 6,344 | 4,208 | 16,183 | 14,696 |
| Operating expenses | 4,170 | 2,599 | 14,806 | 12,139 |
| Interest expense | 105 | 224 | 769 | 584 |
| Total expenses | 22,142 | 17,284 | 70,640 | 68,149 |
| Income (loss) before income taxes | (2,204) | (71) | 83 | (7,220) |
| Income tax (benefit) expense | 48 | (103) | 48 | (281) |
| Equity earnings (losses) in affiliates, net of tax | (52) | — | (52) | — |
| Net income (loss) | (2,304) | 32 | (17) | (6,939) |
| Less net (loss) income attributable to noncontrolling interest | — | (32) | (81) | (4) |
| Net income (loss) attributable to Conifer | <u>\$ (2,304)</u> | <u>\$ 64</u> | <u>\$ 64</u> | <u>\$ (6,935)</u> |
| Net income (loss) allocable to common shareholders | <u>\$ (2,304)</u> | <u>\$ (158)</u> | <u>\$ (476)</u> | <u>\$ (7,200)</u> |
| Earnings (loss) per common share, basic and diluted | \$ (0.30) | \$ (0.05) | \$ (0.09) | \$ (2.69) |
| Weighted average common shares outstanding, basic and diluted | 7,644,492 | 3,094,459 | 5,369,960 | 2,672,440 |

For Further Information:
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Source: Conifer Holdings Inc.