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

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2022

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to
Commission file number 001-37536

Conifer Holdings, Inc.
(Exact name of registrant as specified in its charter)

Michigan	**27-1298795**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3001 West Big Beaver Road, Suite 200	
Troy, Michigan	**48084**
(Address of principal executive offices)	(Zip code)

(248) 559-0840
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	CNFR	The Nasdaq Stock Market LLC

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☑ Emerging growth company ☐

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the registrant's Common Stock held by non-affiliates at June 30, 2022 was approximately $5.3 million, based on the Nasdaq closing price for such shares on that date. The registrant has no non-voting common equity.

The number of outstanding shares of the registrant's common stock, no par value, as of March 27, 2023, was 12,215,849.

CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Form 10-K

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PART I

ITEM 1. BUSINESS

Legal Organization

Conifer Holdings, Inc. (Nasdaq: CNFR) is a Michigan-domiciled insurance holding company formed in 2009. Our principal executive offices are located at 3001 West Big Beaver Road, Suite 200, Troy, MI 48084 (telephone number: (248) 559-0840). Our corporate website address is www.cnfrh.com.

As used in this Form 10-K, references to “Conifer,” “Conifer Holdings,” “the Company,” “our Company,” “we,” “us,” and “our” refer to Conifer Holdings, Inc., a Michigan corporation, and its wholly owned subsidiaries Conifer Insurance Company (“CIC”), Red Cedar Insurance Company (“RCIC”), White Pine Insurance Company (“WPIC”), Sycamore Insurance Agency, Inc. (“Sycamore”), and, as of October 13, 2022, VSRM, Inc. ("VSRM"). CIC, RCIC and WPIC are collectively referred to as the "Insurance Company Subsidiaries." On a stand-alone basis Conifer Holdings, Inc. is referred to as the "Parent Company."

Business Overview

The Company is engaged in the sale of property and casualty insurance products and has organized its business model around three classes of insurance businesses: commercial lines, personal lines, and wholesale agency business. Within these three businesses, the Company offers various insurance products and insurance agency services.

Through our Insurance Company Subsidiaries, we offer insurance coverage in specialty commercial and specialty personal product lines. Currently, we are authorized to write insurance as an excess and surplus lines (“E&S”) carrier in 45 states including the District of Columbia. We are also licensed to write insurance as an admitted carrier in 42 states, including the District of Columbia, and we offer our insurance products in all 50 states.

Our revenues are primarily derived from premiums earned from our insurance operations. We also generate other revenues through investment income and other income which mainly consists of: installment fees and policy issuance fees generally related to the policies we write. Prior to June 30, 2021, we also generated commission and fee revenue in our wholesale agency business from third-party insurers.

Many of our products are targeted to traditionally profitable classes of policyholders that we believe are under-served by other insurers. We market and sell these insurance products through a network of over 4,900 independent agents that distribute our policies through approximately 940 sales offices. We are focused on growing our business in non-commoditized property and casualty insurance markets, while maintaining underwriting discipline and a conservative investment strategy.

We have substantial expertise in serving the unique commercial insurance needs of owner-operated businesses in the following markets:

- Hospitality, such as restaurants, bars, taverns, and bowling centers (that require, among other lines, liquor liability insurance), as well as small grocery and convenience stores;
- Artisan contractors, such as plumbers, painters, carpenters, electricians and other independent contractors; and
- Security service providers, such as companies that provide security guard services, security alarm products and services, and private investigative services.

In our commercial lines business, we seek to differentiate ourselves and provide value to small business owner-operators by bundling different insurance products that meet a significant portion of their insurance needs. For example, in the hospitality market we offer property, casualty, and liquor liability, as well as, in some jurisdictions, workers’ compensation coverage. The breadth of our specialty commercial insurance products enables our agents and their small business clients to avoid the administrative costs and time required to seek coverage for each of these items from separate insurers. As such, we compete for commercial lines business based on our flexible product offerings and customer service, rather than on pricing alone. Of the commercial lines policies that were in-force on December 31, 2022, the average premium amount of an individual policy was $6,700.

We also have substantial expertise in providing specialty homeowners insurance products to targeted customers that are often under-served by other homeowners' insurance carriers. Our personal lines products primarily include low-value dwelling insurance tailored for owners of lower valued homes, which we currently offer in Illinois, Indiana, Louisiana and Texas.

In our personal lines business, we largely target homeowners in need of dwelling insurance that is currently under-served by the insurance market, due to the modest value of their homes or the exposure to natural catastrophes in their geographic area. Because these homeowners are under-served, this portion of the market is typically subject to less pricing pressure from larger nationwide insurers that offer a more commoditized product. We believe our underwriting expertise enables us to compete effectively in these markets by evaluating and appropriately pricing risk. In addition, we believe our willingness to meet these under-served segments of the personal lines insurance market fosters deeper relationships with, and increased loyalty from, the agents who distribute our products. Of the personal lines policies that were in-force on December 31, 2022, the average premium amount of an individual policy was $1,200.

Overall, we structure the multi-line distribution of our premium between commercial and personal lines to better diversify our business and mitigate the potential cyclical nature of either market. In serving these markets, we write business on both an admitted and excess and surplus lines (“E&S”) basis. As of December 31, 2022, approximately 48.0% of our gross written premiums were admitted, and approximately 52.0% were E&S. Insurance companies writing on an admitted basis are licensed by the states in which they sell policies and are required to offer policies using premium rates and forms that are typically filed with and approved by the state insurance regulators. Carriers writing in the E&S market are not bound by most of the rate and form regulations imposed on standard market (admitted) companies, allowing them the flexibility to change the coverage offered and the rate charged without the time constraints and financial costs associated with the filing and approval process subject to admitted business. Our corporate structure allows us to offer both admitted and E&S products in select markets through either CIC or WPIC. Our experience with specialty insurance products enables us to react to new market opportunities and underwrite multiple specialty lines.

The wholesale agency business provides non-risk bearing revenue through commissions and policy fees. The wholesale agency business increases the product options to the Company’s independent retail agents by offering both insurance products from the Insurance Company Subsidiaries as well as products offered by other insurers. The wholesale agency business was sold to our 50%-owned affiliate, Venture Agency Holdings, Inc. (“Affiliate”) on June 30, 2021. As of that date, this business was no longer consolidated in the Company’s financial statements.

Geographic Diversity and Mix of Business

Over the past several years, we have increased our focus on specific core commercial lines of business. We have shifted our focus to low-value dwelling lines of business in order to bring personal lines premium levels back up and to maintain a strategic balance of commercial and personal lines of business.

While we pursue top line premium growth, we do not do so at the expense of losing underwriting discipline. Our underwriters have the experience and institutional flexibility to recognize when to exit certain products in favor of more profitable opportunities as insurance market conditions dictate. The following tables summarize our gross written premiums by segment and state for the years indicated therein (dollars in thousands):

	Gross Written Premium by Segment					
	2022	%	2021	%	2020	%
Commercial	$ 116,868	85%	$ 117,075	89%	$ 102,763	92%
Personal	21,151	15%	15,020	11%	8,572	8%
Total	$ 138,019	100%	$ 132,095	100%	$ 111,335	100%

	Gross Written Premiums by State					
	2022	%	2021	%	2020	%
Michigan	$ 33,739	24.5%	$ 29,314	22.2%	$ 23,304	20.9%
Texas	14,236	10.3%	12,062	9.1%	10,243	9.2%
Florida	13,705	9.9%	13,727	10.4%	13,573	12.2%
California	12,967	9.4%	11,805	8.9%	8,140	7.3%
Oklahoma	11,882	8.6%	7,695	5.8%	2,264	2.2%
New York	10,622	7.7%	7,893	6.0%	6,386	5.7%
Pennsylvania	4,499	3.3%	4,863	3.7%	4,846	4.4%
Ohio	4,378	3.2%	4,123	3.1%	3,823	3.4%
Indiana	3,232	2.3%	3,692	2.8%	3,559	3.2%
Colorado	3,010	2.2%	2,917	2.2%	2,832	2.5%
Illinois	2,644	1.9%	2,457	1.9%	1,818	1.6%
All Other States	23,105	16.7%	31,547	23.9%	30,547	27.4%
Total	$ 138,019	100.0%	$ 132,095	100.0%	$ 111,335	100.0%

The Conifer Approach

We have built our business in a manner that is designed to adapt to changing market conditions and deliver predictable results over time. The following highlights key aspects of our model that contribute to our balanced approach:

- *Focus on under-served markets.* We focus on providing specialty insurance products to targeted policyholders in under-served markets. We believe that most of our small business customers, many of which are owner-operated, value the efficiency of dealing with a single insurer for multiple products. By targeting small- to medium-sized accounts, we add value to the business owner directly without competing solely on price.
- *Strong relationships with our agents.* We develop strong relationships with our independent agents providing them with responsive service, attractive commissions and competitive products to offer policyholders. We believe our agents understand that we view them as key partners in risk selection that help us serve our ultimate client - the insured.
- *Deep understanding of the business and regulatory landscapes of our markets.* The competition for insurance business and the regulatory operating environment vary significantly from state to state. We focus on tailoring our business to concentrate on the geographic markets and regulatory environments with the greatest opportunities for growth and profitability. Our business plan centers on identification of market opportunities in jurisdictions where our insurance products can profitably suit the needs of our potential customers.
- *Emphasis on flexibility.* We offer coverage to our insureds both on an E&S and admitted basis. We believe this flexibility enables us to pivot effectively between E&S and admitted policies as customer needs and regulatory conditions dictate.
- *Conservative risk management with an emphasis on lowering volatility.* We focus on the risk/reward of insurance underwriting, while maintaining a prudent investment policy. We employ conservative risk management practices and opportunistically purchase reinsurance to minimize our exposure to liability for individual risks. In addition, we seek to maintain a diversified liquid investment portfolio to reduce overall balance sheet volatility. As of December 31, 2022, our investments primarily consisted of fixed income investments with an average credit rating of "AA+" and an option adjusted duration of 3.5 years.

Our Competitive Strengths

We believe the following competitive strengths have allowed us to grow our business and will continue to support our strategic growth initiatives:

- *Talented underwriters with broad expertise.* Our underwriters have significant experience managing account profitability across market cycles. With an average of over 28 years of experience, our senior underwriters possess the required expertise to respond appropriately to market forces.
- *Controlled and disciplined underwriting.* We underwrite substantially all policies to our specific guidelines with our experienced, in-house underwriting team. We customize the coverages we offer, and continually monitor our markets and respond to changes in our markets by adjusting our pricing, product structures and underwriting guidelines. By tailoring the terms and conditions of our policies, we align our actual underwriting risk with the profit of each insurance account that we write.
- *Proactive claims handling.* We employ a proactive claims handling philosophy that utilizes an internal team of experienced in-house attorneys to manage and supervise our claims from inception until resolution. We pay what we owe, contest what we don't, and make sound judgment for those claims that fall in between. Our proactive handling of claims reinforces our relationships with our customers and agents by demonstrating our willingness to defend our insureds aggressively and help them mitigate losses.
- *Proven management team.* Our senior management team has an average of over 29 years of experience in the insurance industry. Our senior management team has successfully created, managed and grown numerous insurance companies and books of business, and has longstanding relationships with many independent agents and policyholders in our targeted markets.
- *Ability to leverage technology to drive efficiency.* We utilize a web-based information technology system that creates greater organizational efficiency in our company. Leveraging the infrastructure of programmers and support staff of third-party vendors allows our in-house business analysts to focus on new product development and roll-out. We believe this capability reduces our time to market for new products, enhances services for insureds, increases our ability to capture data, and reduces cost.

Marketing and Distribution

Independent agents are our main distribution source. The selection of an insurance company by a business or individual is strongly influenced by the business or individual's agent. We seek to maintain favorable relationships with our select group of agents. Our distribution philosophy is to treat our agents as partners, and we provide them with competitive products, personal service and attractive commissions. We believe these factors contribute to our positive agency retention.

In 2022, our top six independent agencies accounted for approximately 42% of our gross written premiums in our commercial lines, and our top four independent agencies accounted for approximately 45% of our gross written premiums in our personal lines. We have long term relationships with each of these agencies. We anticipate our concentration in these agencies will decrease in future periods as we establish relationships with additional agencies, as part of our strategic growth plan. Our Insurance Company Subsidiaries market and distribute their products mainly through an independent agency network, however we utilize managing general agents and certain key wholesalers when appropriate.

We recruit our producers through referrals from our existing network of agents, word-of-mouth, advertisement, as well as direct contacts initiated by potential agents. Our marketing efforts are directed through our offices in Michigan and Florida.

We view our agents as key partners in risk selection. We actively solicit their input regarding potential improvements to our business methods and consult with them in developing new products and entering new customer markets. At the same time, we take careful measure to appropriately control and monitor our agents' operations. Controls include frequent review of the quality of business, loss experience and other mechanisms. We retain sole binding authority on the majority of our business. Binding authority is only granted to select long-term agents. When binding authority is granted, we restrict this authority to a specific set of guidelines that are provided to each agent. Moreover, our experienced underwriters review each risk to ensure the guidelines are followed.

In addition to marketing to individual agents, our Sycamore Insurance Agency reviews specific opportunities to write select business on a direct basis.

Underwriting

We are focused on underwriting profitability and effective enterprise risk management. With an average of over 28 years of experience, our senior underwriters have the experience to properly manage account profitability across market cycles.

Our underwriting philosophy for our specialty commercial risks in the hospitality industry is to look at each risk individually and selectively before writing any policies. We remain focused on small- to medium-sized businesses where the owner is often on site and in a better position to efficiently and safely run the overall operations. We understand the risks associated with the smaller enterprises and, due to lighter competition, believe we can receive a fair premium to compensate for the risk taken.

With respect to commercial property coverages, we believe it is important to focus on the profitability of the insureds' business, as well as the traditional risk factors. Therefore, in addition to obtaining inspections on commercial risks, we strive to understand the insureds' business operations and bottom line to verify the underlying business is an acceptable risk.

All commercial and personal policy applications are underwritten according to established guidelines that have been provided to our independent agency force. These guidelines have been integrated into our information technology system framework and only policies that meet our guidelines are accepted by our system. Our underwriting staff has substantial industry experience in matching policy terms, conditions, and pricing to the risk profiles of our policyholders and therefore strengthens our ability to achieve profitability in the product lines we write.

Commercial Lines. In writing commercial lines policies, we frequently employ tailored limiting endorsements, rating surcharges and customized limits to align our product offerings to the risk profile of the class and the specific policyholder being underwritten. Furthermore, we consistently monitor our markets so that we are able to quickly implement changes in pricing, underwriting guidelines and product offerings as necessary to remain competitive. We do not pursue commercial product lines where competition is based primarily on price. We augment our own internally developed pricing models with benchmark rates and policy terms set forth by the Insurance Services Office, or ISO. The ISO system is a widely recognized industry resource for common and centralized rates and forms. It provides advisory ratings, statistical and actuarial services, sample policy provisions and other services to its members.

Personal Lines. We employ internal product managers to review our position relative to our competition, create better segmentation of pricing and originate premium rate changes as appropriate. Consistent with industry practice, we grant our personal lines agents limited binding authority within our specific guidelines. Once a completed application and premium payment are submitted to us, the application is placed in a bound status, and reviewed for final approval. If the agent has underwritten and submitted the account according to our guidelines, we process the application as complete. If our guidelines have not been followed, the application may be cancelled or updated and re-submitted for further underwriting review.

Claims

We believe that effective claims management is vitally important to our success, allowing us to cost effectively pay valid claims, while vigorously defending those claims that lack merit. Our claims department consists of experienced claims professionals located in Michigan, Florida, Pennsylvania and Texas. We utilize a proactive claims handling philosophy to internally manage or supervise all of our claims from inception through final disposition. By handling our claims internally, we can quickly assess claims, improve communication with our policyholders and claimants and better control our claims management costs.

We have several in-house attorneys with considerable legal experience in trying cases in the lines of business we write. Included among these attorneys is our head in-house litigator, who consults on all trials and has 28 years of litigation experience. We also have numerous seasoned property and liability adjusters which allow us to manage our claims exposures more carefully, across all markets. In addition, our claims professionals utilize a network of independent local adjusters and appraisers to assist with specific aspects of claims investigations, such as securing witness statements and conducting initial appraisals in states where it is practical to do so. These outside vendors are mainly compensated based on pre-negotiated fee schedules to control overall costs.

Claims personnel are organized by line of business, with specific managers assigned as supervisors for each line of business. Reserving and payment authority levels of claims personnel are set by our Senior Vice President of claims and our Executive Vice President. Those limits of authority are integrated into our claims information technology systems to ensure strict compliance.

Initial claim reserves are determined and set using our statistical averages of paid indemnity and loss adjustment expenses by line of business. After reviewing statistical data and consulting with our internal actuary, our Senior Vice President of claims, together with other members of management, set initial reserves by line of business. Once initial reserves have been set, reserves are evaluated periodically as specific claim information changes to generate management's overall best estimate of reserves. In addition, claim reviews with in-house adjusters and attorneys provide a regular opportunity to review the adequacy of reserves. Changes to claims reserves are made by senior management based on claim developments and input from these attorneys and adjusters. We utilize an in-house actuary to support our financial efforts.

Reinsurance

We routinely purchase reinsurance for our commercial and personal lines to reduce volatility by limiting our exposure to large losses and to provide capacity for growth. In a reinsurance transaction, an insurance company transfers, or cedes, all or part of its exposure in return for a portion of the premium. We remain legally responsible for the entire obligation to policyholders, irrespective of any reinsurance coverage we may purchase.

Information relating to our reinsurance structure and treaty information is included within Note 8 ~ *Reinsurance.*

Loss Reserve Development

The following table presents the development of our loss and loss adjustment expenses ("LAE") reserves from 2012 through 2022, net of reinsurance recoverables (dollars in thousands).

	Year Ended December 31,										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 (1)
Net liability for losses and loss expenses	$ 17,547	$ 24,956	$ 28,307	$ 30,017	$ 47,993	$ 67,830	$ 63,122	$ 84,667	$ 87,052	$ 98,741	$ 82,888
Liability re-estimated as of:											
One year later	13,508	23,763	29,321	40,239	57,452	71,186	79,351	100,261	106,482	123,668	
Two years later	13,601	25,521	33,274	52,321	60,453	87,536	94,786	118,116	129,665		
Three years later	13,821	26,560	38,569	58,251	69,833	95,367	108,022	137,327			
Four years later	13,860	27,784	40,822	62,185	74,381	102,335	117,607				
Five years later	13,980	27,920	42,274	64,547	76,860	106,705					
Six years later	14,048	28,339	42,967	66,072	79,622						
Seven years later	13,982	28,655	43,341	66,883							
Eight years later	14,050	28,880	43,771								
Nine years later	14,133	29,487									
Ten years later	14,626										
Net cumulative redundancy (deficiency)	$ 2,921	$ (4,531)	$ (15,464)	$ (36,866)	$ (31,629)	$ (38,875)	$ (54,485)	$ (52,660)	$ (42,613)	$ (24,927)	$ 82,888
Cumulative amount of net liability paid as of:											
One year later	5,186	$ 13,245	$ 16,091	$ 20,200	$ 29,533	$ 44,521	$ 29,520	$ 40,244	$ 39,187	$ 51,129	
Two years later	9,106	19,711	24,060	35,972	56,962	62,369	57,864	70,478	79,965		
Three years later	11,444	23,241	32,699	50,676	61,168	77,409	78,861	103,770			
Four years later	13,015	26,056	37,474	58,317	66,556	87,587	100,377				
Five years later	13,522	27,217	40,438	61,349	70,945	99,544					
Six years later	13,903	27,780	41,979	63,814	76,563						
Seven years later	13,878	28,384	42,428	65,654							
Eight years later	13,923	28,555	43,025								
Nine years later	13,927	29,199									
Ten years later	14,395										
Gross liability-end of year	24,843	28,909	31,532	35,423	54,651	87,896	92,807	107,246	111,270	139,085	165,539
Reinsurance recoverable on unpaid losses	7,296	3,952	3,225	5,405	6,658	20,066	29,685	22,579	24,218	40,344	82,651
Net liability-end of year	17,547	24,957	28,307	30,018	47,993	67,830	63,122	84,667	87,052	98,741	82,888
Gross liability re-estimated - latest	20,671	35,702	52,783	84,930	115,658	174,272	177,075	173,828	164,154	167,738	
Reinsurance recoverable on unpaid losses re-estimated - latest	6,044	6,216	9,012	18,047	36,036	67,566	59,468	36,501	34,490	44,070	
Net liability re-estimated - latest	14,627	29,486	43,771	66,883	79,622	106,706	117,607	137,327	129,664	123,668	
Gross cumulative redundancy (deficiency)	$ 4,172	$ (6,793)	$ (21,251)	$ (49,507)	$ (61,007)	$ (86,376)	$ (84,268)	$ (66,582)	$ (52,884)	$ (28,653)	

(1) The 2022 column includes $25.9 million of reinsurance recoverables from the loss portfolio transfer ("LPT") described in Item 6: Selected Consolidated Financial Data. All previous years do not reflect any recoverables from the LPT.

The first line of the table presents the unpaid loss and LAE reserves at December 31 for each year, net of reinsurance recoverables, including the incurred but not reported ("IBNR") reserve. The next section of the table sets forth the re-estimates of incurred losses from later years, including payments, for the years indicated. The increase/decrease from the original estimate would generally be a combination of factors, including, but not limited to:

- Claims being settled for amounts different from the original estimates;
- Reserves being increased or decreased for individual claims that remain open as more information becomes known about those individual claims; and
- More or fewer claims being reported after the related year end, than had been expected to be reported before that date.

As our historical data for a particular line of business increases, both in terms of the number of years of loss experience and the size of our data pool, we will increasingly rely upon our own loss experience rather than industry loss experience in establishing our loss and LAE reserves. We applied reserving practices consistent with historical methodologies and incorporated specific analyses where appropriate.

Additional information relating to our reserves is included within the *Unpaid Losses and Loss Adjustment Expenses* section of Note 1 ~ *Summary of Significant Accounting Policies* and Note 7 ~ *Unpaid Losses and Loss Adjustment Expenses* of the Notes to the Consolidated Financial Statements, as well as in the *Critical Accounting Policies: Unpaid Loss and Loss Adjustment Expense Reserves* section of Item 7, *Management's Discussion and Analysis*.

Regulation

Insurance Company Regulation

Our Insurance Company Subsidiaries are subject to regulation in the states where they conduct business. State insurance regulations generally are designed to protect the interests of policyholders, consumers or claimants rather than shareholders or other investors. The nature and extent of such state regulation varies by jurisdiction, but generally involves:

- Prior approval of the acquisition of control of an insurance company or of any company controlling an insurance company;
- Regulation of certain transactions entered into by such insurance company subsidiary with any of its affiliates;
- Approval of premium rates, forms and policies used for many lines of admitted insurance;
- Standards of solvency and minimum amounts of capital and surplus that must be maintained;
- Limitations on types and concentration of investments;
- Licensing of insurers and agents;
- Deposits of securities for the benefit of policyholders; and
- The filing of periodic reports with state insurance regulators with respect to financial condition and other matters.

In addition, state regulatory examiners perform periodic examinations of our Insurance Company Subsidiaries. The results of these examinations can give rise to regulatory orders requiring remedial, injunctive or other corrective action.

Insurance Holding Company Regulation

We operate as an insurance holding company and are subject to regulation in the jurisdictions in which we conduct business. These regulations require that each of our Insurance Company Subsidiaries register with the insurance department of its state of domicile and furnish information concerning the operations of companies within the holding company system that may materially affect the operations, management or financial condition of the insurers within the system. The insurance laws similarly provide that all transactions among members of a holding company system must be fair and reasonable. Certain types of transactions between our Insurance Company Subsidiaries and the Company and our other affiliates generally must be disclosed to the state regulators, and prior approval of the state insurance regulator generally is required for any material or extraordinary transaction. In addition, a change of control of a domestic insurer or of any controlling person requires the prior approval of the state of domicile insurance regulator.

Various State and Federal Regulations

Insurance companies are also affected by a variety of state and federal legislative and regulatory measures and judicial decisions that define and extend the risks and benefits for which insurance is sought and provided. In addition, for some classes of insureds individual state insurance departments may prevent premium rates for some classes of insureds from reflecting the level of risk assumed by the insurer for those classes. Such developments may adversely affect the profitability of various lines of insurance. In some cases, if permitted by applicable regulations, these adverse effects on profitability can be minimized through repricing of coverages or limitations or cessation of the affected business.

Reinsurance Intermediary

Our reinsurance intermediaries are also subject to regulation. Under applicable regulations, an intermediary is responsible, as a fiduciary, for funds received on account of the parties to the reinsurance transaction. The intermediaries are required to hold such funds in appropriate bank accounts subject to restrictions on withdrawals and prohibitions on commingling.

Licensing and Agency Contracts

We, or certain of our designated employees, must be licensed to act as agents by regulatory authorities in the states in which we conduct business. Regulations and licensing laws vary in each state and are often complex.

Insurance licenses are issued by state insurance regulators upon application and may be of perpetual duration or may require periodic renewal. There are often requirements to obtain appropriate new licenses before we can begin writing or offer new coverages in a new state. The requirements are more stringent when writing on an admitted basis, as opposed to on an E&S basis where there is greater form and rate flexibility.

Insurers operating on an admitted basis must file premium rate schedules and policy or coverage forms for review and approval by the insurance regulators. In many states, rates and policy forms must be approved prior to use, and insurance regulators have broad discretion in judging whether or not an insurer's rates are adequate, excessive and unfairly discriminatory.

The applicable licensing laws and regulations in all states are subject to amendment or reinterpretation by state regulatory authorities, and such authorities are vested in most cases with relatively broad discretion as to the granting, revocation, suspension and renewal of licenses. We, or our employees, could be excluded, or temporarily suspended, from continuing with some or all of our activities in, or otherwise subjected to penalties by, a particular state.

Membership in Insolvency Funds and Associations, Mandatory Pools and Insurance Facilities

Most states require admitted property and casualty insurers to become members of insolvency funds or associations, which generally protect policyholders against the insolvency of insurers. Members of the fund or association must contribute to the payment of certain claims made against insolvent insurers. The Company's assessments from insolvency funds were minimal for the years ended December 31, 2022, 2021, and 2020.

Our Insurance Company Subsidiaries are also required to participate in various mandatory insurance facilities or in funding mandatory pools, which are generally designed to provide insurance coverage for consumers who are unable to obtain insurance in the voluntary insurance market. Among the pools participated in are those established in certain states to provide windstorm and other similar types of property coverage. These pools typically require all companies writing applicable lines of insurance in the state for which the pool has been established to fund deficiencies experienced by the pool based upon each company's relative premium writings in that state, with any excess funding typically distributed to the participating companies on the same basis. To the extent that reinsurance treaties do not cover these assessments, they may have an adverse effect on the Company. For the years ended December 31, 2022, 2021, and 2020, total assessments paid to all such facilities were minimal.

Restrictions on Dividends and Risk-Based Capital

For information on Restrictions on Dividends and Risk-based Capital that affect us please refer to Note 11 ~ *Statutory Financial Data, Risk-Based Capital and Dividend Restrictions* of the Notes to the Consolidated Financial Statements and the *Regulatory and Rating Issues* section within Item 7, *Management's Discussion and Analysis*.

NAIC-IRIS Ratios

The National Association of Insurance Commissioners' ("NAIC") Insurance Regulatory Information System ("IRIS") was developed by a committee of state insurance regulators and is primarily intended to assist state insurance departments in executing their statutory mandates to oversee the financial condition of insurance companies operating in their respective states. IRIS identifies thirteen industry ratios and specifies "usual values" for each ratio. Departure from the usual values on four or more ratios generally leads to inquiries or possible further review from individual state insurance commissioners. However, the generation of ratios outside of the usual values does not necessarily indicate a financial problem. For example, premium growth, alone, can trigger one or more unusual values. Refer to the *Regulatory and Rating Issues* section within Item 7, *Management's Discussion and Analysis*.

Effect of Federal Legislation

The Terrorism Risk Insurance Act ("TRIA") was enacted in November 2002. After several extensions, Congress enacted the Terrorism Risk Insurance Program Reauthorization of 2015 ("Act"). The Act was extended through December 31, 2027 in December of 2019. The Act continues to require insurance companies to offer terrorism coverage. There is minimal exposure to this coverage as most of our policyholders decline this coverage option.

Employees

At December 31, 2022, we had 109 employees. Substantially all of our employees are full-time. Our employees are not subject to any collective bargaining agreement, and we are not aware of any current efforts to implement such an agreement. We believe we have good working relations with our employees.

Available Information

We maintain an internet website at http://www.cnfrh.com, where we make available, free of charge, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Statements of Beneficial Ownership (Forms 3, 4, and 5), and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish to, the SEC. In addition, the SEC maintains an Internet site that contains reports, proxy statements, and other information that we file at www.sec.gov. The public may read and copy any materials we file with the Commission at the SEC's Public Reference Room at 100 F Street, NE., Washington, DC 20549, on official business days during the hours of 10 a.m. to 3 p.m. The public may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. Information found on our website or any other website is not part of this annual report on Form 10-K or any other report we file with, or furnish to the SEC.

Glossary

Accident year	The annual calendar accounting period in which loss events occurred, regardless of when the losses are actually reported, booked or paid.
Accident year combined ratio	The accident year combined ratio is an insurance industry measure that excludes 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 (which matches policy pricing with related losses) and assists management in their evaluation of product pricing levels and quality of business written. Management uses accident year combined ratio as one component to assess the Company's current year performance and as a measure to evaluate, and if necessary, adjust current year pricing and underwriting.
Adjusted operating income (loss)	Net income (loss) excluding net realized investment and other gains (losses), net of tax, the effects of tax reform, the tax effect of changes in unrealized gains to the extent included in net income, the change in the fair value of equity securities, net of tax, and the capitalization and amortization of deferred gains from the adverse development cover (ADC).
Adjusted operating income (loss), per share	Adjusted operating income (loss) on a per share basis.
Assignment of Benefits	A legal tool that allows a third party to assert a claim and be paid for services performed for an insured who would normally be reimbursed directly by the insurance company after making a claim themselves.
Book value per share	Total common shareholders' equity divided by the number of common shares outstanding.
Case reserves	Estimates of anticipated future payments to be made on each specific reported claim.
Combined Ratio based on accounting principles generally accepted in the United States of America ("GAAP")	The combined ratio is the sum of the loss ratio and the expense ratio. These ratios differ from statutory ratios to reflect GAAP accounting, as management evaluates the performance of our underwriting operations using the GAAP combined ratio.
Combined Ratio based on statutory accounting practices ("SAP")	The combined ratio based on SAP, expressed as a percentage, is the key measure of underwriting profitability traditionally used in the property and casualty insurance business. The combined ratio is a statutory accounting measurement, which represents the sum of (i) the ratio of losses and loss expenses to net earned premiums (loss ratio), plus (ii) the ratio of underwriting expenses to net written premiums (expense ratio).
Combined Ratio (Overall)	When the combined ratio is under 100%, underwriting results are generally considered profitable; when the combined ratio is over 100%, underwriting results are generally considered unprofitable.
Deferred policy acquisition costs	Primarily commissions and premium-related taxes that vary with, and are primarily related to, the production of new contracts and are deferred and amortized to achieve a matching of revenues and expenses when reported in financial statements prepared in accordance with GAAP.
Deficiency	With regard to reserves for a given liability, a deficiency exists when it is estimated or determined that the reserves are insufficient to pay the ultimate settlement value of the related liabilities. Where the deficiency is the result of an estimate, the estimated amount of deficiency (or even the finding of whether or not a deficiency exists) may change as new information becomes available.

Expense Ratio	For GAAP, it is the ratio of GAAP underwriting expenses incurred to net earned premiums plus other income. For SAP, it is the ratio of Statutory underwriting expenses incurred to net written premiums.
Incurred but not reported (IBNR) reserves	Reserves for estimated losses and LAE that have been incurred but not yet reported to the insurer. This includes amounts for unreported claims, development on known cases, and re-opened claims.
Lender	The Huntington National Bank
Loss	An occurrence that is the basis for submission and/or payment of a claim. Losses may be covered, limited or excluded from coverage, depending on the terms of the policy.
Loss adjustment expenses (LAE)	The expenses of settling claims, including legal and other fees and the portion of general expenses allocated to claim settlement costs.
Loss ratio	The ratio of incurred losses and loss adjustment expenses to net earned premiums plus other income.
Loss reserves	Liabilities established by insurers and reinsurers to reflect the estimated cost of claims incurred that the insurer or reinsurer will ultimately be required to pay in respect of insurance or reinsurance it has written. Reserves are established for losses and for LAE, and consist of case reserves and IBNR reserves. As the term is used in this document, “loss reserves” is meant to include reserves for both losses and LAE, unless stated otherwise.
Loss reserve development	The increase or decrease in Losses or LAE as a result of the re-estimation of claims and claim adjustment expense reserves at successive valuation dates for a given group of claims. Loss reserve development may be related to prior year or current year development.
Losses incurred	The total losses sustained by an insurance company under a policy or policies, whether paid or unpaid. Incurred losses include a provision for IBNR.
NAIC-IRIS ratios	Financial ratios calculated by the NAIC to assist state insurance departments in monitoring the financial condition of insurance companies.
Policyholders' surplus	As determined under SAP, the amount remaining after all liabilities are subtracted from all admitted assets. Admitted assets are assets of an insurer prescribed or permitted by a state to be recognized on the statutory balance sheet. Policyholders' surplus is also referred to as “surplus” or “statutory surplus” for statutory accounting purposes.
Premium leverage ratio	The ratio of written premium (gross or net) to consolidated statutory surplus.
Redundancy	With regard to reserves for a given liability, a redundancy exists when it is estimated or determined that the reserves are greater than what will be needed to pay the ultimate settlement value of the related liabilities. Where the redundancy is the result of an estimate, the estimated amount of redundancy (or even the finding of whether or not a redundancy exists) may change as new information becomes available.
Risk-Based Capital (RBC)	A measure adopted by the NAIC and enacted by states for determining the minimum statutory policyholders' surplus requirements of insurers. Insurers having total adjusted capital less than that required by the RBC calculation will be subject to varying degrees of regulatory action.
Statutory accounting practices (SAP)	The practices and procedures prescribed or permitted by domiciliary state insurance regulatory authorities in the United States for recording transactions and preparing financial statements.
Underwriting gain or loss	Net earned premiums plus other income, less losses, LAE, commissions, and operating expenses.

ITEM 1A. RISK FACTORS

Risk Factors

You should read the following risk factors carefully in connection with evaluating our business and the forward-looking information contained in this Annual Report on Form 10-K. Any of the following risks could materially and adversely affect our business, operating results, financial condition and the actual outcome of matters as to which forward-looking statements are made in this Annual Report on Form 10-K. While we believe we have identified and discussed below the key risk factors affecting our business, there may be additional risks and uncertainties that are not presently known or that are not currently believed to be significant that may adversely affect our business, operating results or financial condition in the future.

Summary Risk Factors

Our business is subject to numerous risks and uncertainties. We have listed below the material risk factors applicable to us. These material risks include, but are not limited to, the following:

- Operational Risks
- Investment Risks
- Liquidity Risks
- Legal and Regulatory Risks
- Rating Agency Risks
- General Risk Factors

Operational Risks

The effects of the COVID-19 pandemic and its economic and societal impact could adversely impact our businesses, assets and financial performance.

COVID-19 has caused significant disruption to public health, the global economy, financial markets, and commercial, social and community activity generally. The pandemic and the economic uncertainty may result in higher levels of loss and claims activity in certain lines of business and our premium revenue may reduce by a suppression of national and global commercial activity. If the ongoing pandemic continues to create disruptions or turmoil in the credit or financial markets, it could adversely affect our ability to access capital on favorable terms, or at all, and continue to meet our liquidity needs.

Governmental, regulatory and judicial actions in response to the COVID-19 pandemic may adversely affect our financial performance and our ability to conduct our businesses.

Insurance and financial regulators may attempt to impose new obligations on insurers in connection with the pandemic that could materially affect our business or profitability, including any retroactive change to the terms of existing insurance contracts that specifically exclude business interruption losses arising from the pandemic. While we believe that any retroactive attempt to rewrite the terms of existing contracts would be unconstitutional, we cannot be certain of ultimate judicial outcomes. In addition, there is a risk that novel litigation theories, in conjunction with a diverse range of potential jury and judicial venues across many jurisdictions, could give rise to unforeseen pandemic related liability.

The disruption and other effects caused by COVID-19 could adversely impact the efficiency and productivity of our Business operations.

To protect our employees and in response to the global and regional restrictions on interpersonal contact and travel because of the COVID-19 pandemic, much of our work force is working remotely, placing increased demands on our IT systems. There is no assurance that our ability to continue to function in this new environment will not be adversely affected by an extended period of limited access to our physical facilities or by other developments such as an extended disruption in the telecommunications and internet infrastructure that support our remote work capability.

Our actual incurred losses may be greater than our loss and loss adjustment expense reserves, which could have a material adverse effect on our financial condition and results of operations.

Insurance companies' financial condition and results of operations depend upon their ability to accurately assess the potential losses and loss adjustment expenses under the terms of the insurance policies they underwrite. Reserves do not represent an exact calculation of liability. Rather, reserves represent an estimate of what the expected ultimate settlement and administration of claims will cost, and the ultimate liability may be greater or less than the current estimate. In the insurance industry, there is always the risk that reserves may prove inadequate as it is possible for insurance companies to underestimate the cost of claims. There has been considerable adverse development reported by the Company in recent years.

We base our estimates on our assessment of known facts and circumstances, as well as estimates of future trends in claim severity, claim frequency, judicial theories of liability and other factors. These variables are affected by both internal and external events that could increase our exposure to losses, including changes in actuarial projections, claims handling procedures, inflation, severe weather, climate change, economic and judicial trends, and legislative changes. We continually monitor reserves using new information on reported claims and a variety of statistical techniques to update our current estimate. Our estimates could prove to be inadequate, and this underestimation could have a material adverse effect on our financial strength.

The uncertainties we encounter in establishing our loss reserves include:

- For the majority of our policies, we are obligated to pay any covered loss that occurs while the policy is in force. Accordingly, claims may be reported and develop many years after a policy has lapsed;
- Even when a claim is received, it may take considerable time to fully appreciate the extent of the covered loss suffered by the insured and, consequently, estimates of loss associated with specific claims can increase over time;
- New theories of liability are enforced retroactively from time to time by courts;
- Volatility in the financial markets, economic events, weather events and other external factors may result in an increase in the number of claims and the severity of the claims reported. In addition, elevated inflationary conditions would, among other things, drive loss costs to increase;
- When we enter new lines of business, or encounter new theories of claims liability, we may encounter an increase in claims frequency and greater claims handling costs than we had anticipated; and
- Estimation of IBNR losses is a complex and inherently uncertain process which involves a considerable degree of judgment and expertise, which adds to the overall difficulty of estimating loss reserves.

If any of our insurance reserves should prove to be inadequate for the reasons discussed above, or for any other reason, we will be required to increase reserves, resulting in a reduction in our net income and shareholders' equity in the period in which the deficiency is identified. Such adverse development can result in the unplanned need for additional capital, which may need to be obtained through the sale of assets or additional issuance of common stock which could dilute current shareholder value.

If we are unable to underwrite risks accurately and charge competitive yet profitable rates to our policyholders, our business, financial condition and results of operations will be adversely affected.

In general, the premiums for our insurance policies are established at the time a policy is issued and, therefore, before all of our underlying costs are known. Like other insurance companies, we rely on estimates and assumptions in setting our premium rates. Establishing adequate premium rates is necessary, together with investment income, to generate sufficient revenue to offset losses, LAE and other underwriting costs and to earn a profit. If we do not accurately assess the risks that we underwrite, we may not charge adequate premiums to cover our losses and expenses, which would adversely affect our results of operations and our profitability. Alternatively, we could set our premiums too high, which could reduce our competitiveness and lead to lower revenues.

Pricing involves the acquisition and analysis of historical loss data and the projection of future trends, loss costs and expenses, and inflation trends, among other factors, for each of our products in multiple risk tiers and many different markets. In order to accurately price our policies, we must:

- Collect and properly analyze a substantial volume of data from our insureds;
- Develop, test and apply appropriate actuarial projections and rating formulas;
- Closely monitor and timely recognize changes in trends; and
- Project both frequency and severity of our insureds' losses with reasonable accuracy.

We seek to implement our pricing accurately in accordance with our assumptions. Our ability to undertake these efforts successfully and, as a result, accurately price our policies, is subject to a number of risks and uncertainties, including:

- Insufficient or unreliable data;
- Incorrect or incomplete analysis of available data;
- Uncertainties generally inherent in estimates and assumptions;
- Our failure to implement appropriate actuarial projections and rating formulas or other pricing methodologies;
- Regulatory constraints on rate increases; and
- Our failure to accurately estimate investment yields and the duration of our liability for loss and loss adjustment expenses, as well as unanticipated court decisions, legislation or regulatory action.

In addition, as a result of current industry non-weather factors, such as the increase in litigation surrounding the Assignment of Benefits claims and lawsuits in Florida, in particular, we may experience additional losses that could adversely affect our financial position and results of operations.

We may not be able to manage our growth effectively.

We intend to continue to grow our business, which could require additional capital, systems development and skilled personnel. We cannot assure you that we will be able to locate profitable business opportunities, meet our capital needs, expand our systems and our internal controls effectively, allocate our human resources optimally, identify qualified employees or agents or incorporate effectively the components of any businesses we may acquire in our effort to achieve growth. The failure to manage our growth effectively and maintain underwriting discipline could have a material adverse effect on our business, financial condition and results of operations.

We operate in a highly competitive environment and we may not continue to be able to compete effectively against larger or more well-established business rivals.

We compete with a large number of other companies in our selected lines of business. Many of our competitors are substantially larger and may enjoy better name recognition, substantially greater financial resources, higher financial strength ratings by rating agencies, broader and more diversified product lines and more widespread agency relationships than we do. Insurers in our markets generally compete on the basis of price, consumer recognition, coverages offered, claims handling, financial stability, customer service and geographic coverage. Although pricing is influenced to some degree by that of our competitors, it is not in our best interests to compete solely on price, and we may from time-to-time experience a loss of market share during periods of intense price competition. A number of new, proposed or potential legislative or industry developments could further increase competition in our industry including, but not limited to:

- An increase in capital-raising by companies in our lines of business, which could result in new entrants to our markets and an excess of capital in the industry;
- The deregulation of commercial insurance lines in certain states and the possibility of federal regulatory reform of the insurance industry, which could increase competition from standard carriers for our E&S lines of insurance business; and

- Changing practices caused by the Internet may lead to greater competition in the insurance business. Among the possible changes are shifts in the way insurance is purchased. If our distribution model were to be significantly altered by changes in the way products are marketed, including, without limitation, through use of the Internet, it could have a material adverse effect on our premiums, underwriting results and profits.

There is no assurance that we will be able to continue to compete successfully in the insurance markets in which we participate. Increased competition in our market could result in a change in the supply and/or demand for insurance, affect our ability to price our products at risk-adequate rates and retain existing business, or underwrite new business on favorable terms. If this increased competition so limits our ability to transact business, our operating results could be adversely affected.

Increased information technology security threats and more sophisticated computer crimes pose a risk to our systems, networks, products and services.

Our business is dependent upon the uninterrupted functioning of our information technology and telecommunication systems. We rely upon our systems, as well as the systems of our vendors, to underwrite and process our business; make claim payments; provide customer service; provide policy administration services, such as endorsements, cancellations and premium collections; comply with insurance regulatory requirements; and perform actuarial and other analytical functions necessary for pricing and product development.

Our systems may be damaged, disrupted, or shut down due to unauthorized access, malicious software, undetected intrusion, hardware failures, or other events, and in these circumstances our disaster recovery planning may be ineffective or inadequate. Information technology security threats from user error to cybersecurity attacks are increasing in frequency and sophistication. These threats pose a risk to the security of our systems and networks and the confidentiality, availability and integrity of our data. The potential consequences of a material cybersecurity attack include reputational damage, litigation with third parties, and increased cybersecurity protection and remediation costs. A sustained business interruption or system failure could adversely impact our ability to process our business, provide customer service, pay claims in a timely manner or perform other necessary business functions. We could also be subject to fines and penalties related to a security breach. The cost to remedy a severe breach could be substantial.

Severe weather conditions and other catastrophes are inherently unpredictable and may have a material adverse effect on our financial results and financial condition.

Our property insurance business is exposed to the risk of severe weather conditions and other catastrophes. Catastrophes can be caused by various events, including natural events such as hurricanes, winter weather, tornadoes, windstorms, earthquakes, hailstorms, severe thunderstorms, fires and other non-natural events such as explosions or riots.

The incidence and severity of catastrophes and severe weather conditions are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Severe weather conditions and catastrophes can cause greater losses in our property lines and cause our liquidity and financial condition to deteriorate. In addition, our inability to obtain reinsurance coverage at reasonable rates and in amounts adequate to mitigate the risks associated with severe weather conditions and other catastrophes could have a material adverse effect on our business and results of operations.

We may be unable to obtain reinsurance coverage at reasonable prices or on terms that provide us adequate protection.

We purchase reinsurance in many of our lines of business to help manage our exposure to insurance risks that we underwrite and to reduce volatility in our results.

The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and available capacity, each of which can affect our business volume and profitability. The availability of reasonably affordable reinsurance is a critical element of our business plan. One important way we utilize reinsurance is to reduce volatility in claims payments by limiting our exposure to losses from large risks. Another way we use reinsurance is to purchase substantial protection against concentrated losses when we enter new markets. As a result, our ability to manage volatility and avoid significant losses, expand into new markets or grow by offering insurance to new kinds of enterprises may be limited by the unavailability of reasonably priced reinsurance. We may not be able to obtain reinsurance on acceptable terms or from entities with satisfactory creditworthiness. Under such circumstances, we may have to reduce the level of our underwriting commitments, which would reduce our revenues.

Many reinsurance companies have begun to exclude certain coverages from, or alter terms in, the reinsurance contracts we enter into with them. Some exclusions relate to risks that we cannot exclude from the policies we write due to business or regulatory constraints. In addition, reinsurers are imposing terms, such as lower per occurrence and aggregate limits, on direct insurers that do not wholly cover the risks written. As a result, we, like other direct insurance companies, write insurance policies which, to some extent, do not have the benefit of reinsurance protection. These gaps in reinsurance protection expose us to greater risk and greater potential losses. For example, certain reinsurers have excluded coverage for terrorist acts or priced such coverage at unreasonably high rates.

We distribute our insurance products through a select group of agents, several of which account for a significant portion of our business, and there can be no assurance that such relationships will continue, or if they do continue, that the relationship will be on favorable terms to us. In addition, reliance on agents subjects us to their credit risk.

Our distribution model depends almost entirely on the agencies that distribute our products. In 2022, six independent agencies accounted for approximately 42% of our gross written premiums in our commercial lines, and four independent agencies, accounted for approximately 45% of our gross written premiums in our personal lines. We cannot assure you that these relationships, or our relationships with any of our agencies will continue. Even if the relationships do continue, they may not be on terms that are profitable for us. The termination of a relationship with one or more significant agents could result in lower premium revenue and could have a material adverse effect on our results of operations or business prospects.

Certain premiums from policyholders, where the business is produced by agents, are collected directly by the agents and forwarded to our Insurance Company Subsidiaries. In certain jurisdictions, when the insured pays its policy premium to these agents for payment on behalf of our Insurance Company Subsidiaries, the premiums might be considered to have been paid under applicable insurance laws and regulations. Accordingly, the insured would no longer be liable to us for those amounts, whether or not we have actually received the premiums from that agent. Consequently, we assume a degree of credit risk associated with agents. There may be instances where agents collect premiums but do not remit them to us and we may be required to provide the coverage set forth in the policy despite the absence of premiums. If we are unable to collect premiums from agents, underwriting profits may decline and our financial condition and results of operations could be materially and adversely affected.

The property and casualty insurance business is historically cyclical in nature, and we may experience periods with excess underwriting capacity and unfavorable premium rates, which could adversely affect our business.

Historically, insurers have experienced significant fluctuations in operating results due to competition, frequency and severity of catastrophic events, levels of capacity, adverse litigation trends, regulatory constraints, general economic conditions and other factors. The supply of insurance is related to prevailing prices, the level of insured losses and the level of capital available to the industry that, in turn, may fluctuate in response to changes in rates of return on investments being earned in the insurance industry. As a result, the insurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of capacity increased premium levels. Demand for insurance depends on numerous factors, including the frequency and severity of catastrophic events, levels of capacity, the introduction of new capital providers, and general economic conditions. All of these factors fluctuate and may contribute to price declines generally in the insurance industry.

We cannot predict with certainty whether market conditions will improve, remain constant or deteriorate. Negative market conditions may impair our ability to underwrite insurance at rates we consider appropriate and commensurate relative to the risk assumed. If we cannot underwrite insurance at appropriate rates, our ability to transact business will be materially and adversely affected. Any of these factors could lead to an adverse effect on our business, financial condition and results of operations.

Adverse economic factors, including recession, inflation, periods of high unemployment or lower economic activity could result in the sale of fewer policies than expected or an increase in the infrequency or severity of claims and premium defaults or both, which, in turn, could affect our growth and profitability.

Factors, such as business revenue, economic conditions, the volatility and strength of the capital markets and inflation can all affect the business and economic environment in which we operate. These same factors affect our ability to generate revenue and profits. In an economic downturn that is characterized by higher unemployment, declining spending and reduced corporate revenues, the demand for insurance products is adversely affected, which directly affects our premium levels and profitability. Negative economic factors may also affect our ability to receive the appropriate rate for the risk we insure with our policyholders and may adversely affect the number of policies we can write, including with respect to our opportunities to underwrite profitable business. In an economic downturn, our customers may have less need for insurance coverage, cancel existing insurance policies, modify their coverage or not renew with us. Existing policyholders may exaggerate or even falsify claims to obtain higher claims payments. These outcomes would reduce our underwriting profit to the extent these factors are not reflected in the rates we charge.

The failure of any of the loss limitations or exclusions we employ, or changes in other claims or coverage issues, could have a material adverse effect on our financial condition or results of operations.

Our policies include provisions to limit our exposure to known risks. In addition, we design our policy terms to manage our exposure to expanding theories of legal liability like those which have given rise to claims for lead paint, asbestos, mold, construction defects and environmental matters. Many of the policies we issue also include conditions requiring the prompt reporting of claims to us and entitle us to decline coverage in the event of a violation of that condition. Also, many of our policies limit the period during which a policyholder may bring a claim under the policy, which in many cases is shorter than the statutory period under which such claims can be brought against our policyholders.

As industry practices and legal, judicial, social and other conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond the underwriting intent or by increasing the size or number of claims.

It is possible that a court or regulatory authority could nullify or void any number of the provisions we put in place to limit our exposure. Regulatory authorities or courts may not interpret the limitations or exclusions that we included in the policies in the manner we intended. Or legislation could be enacted modifying or barring the use of such endorsements and limitations. These types of governmental actions could result in higher than anticipated losses and loss adjustment expenses, which could have a material adverse effect on our financial condition or results of operations. In some instances, these changes may not become apparent until sometime after we have issued insurance policies that are affected by the changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a contract is issued.

If we are unable to retain key management and employees or recruit other qualified personnel, we may be adversely affected.

We believe that our future success depends, in large part, on our ability to retain our experienced management team and key employees, particularly our chairman and chief executive officer, James G. Petcoff. There can be no assurance that we can attract and retain the necessary employees to conduct our business activities on a timely basis or at all. Our competitors may offer more favorable compensation arrangements to our key management or employees to incentivize them to leave our Company. Furthermore, our competitors may make it more difficult for us to hire their personnel by offering excessive compensation arrangements to certain employees to induce them not to leave their current employment and bringing litigation against employees who do leave (and possibly us as well) to join us. The loss of any of our executive officers or other key personnel, or our inability to recruit and retain additional qualified personnel as we grow, could materially and adversely affect our business and results of operations, and could prevent us from fully implementing our growth strategies.

We rely on our systems and employees, and those of certain third-party vendors and service providers in conducting our operations, and certain failures, including internal or external fraud, operational errors, or systems malfunctions, could materially adversely affect our operations.

We are exposed to many types of operational risk, including the risk of fraud by employees and outsiders, clerical and recordkeeping errors and computer or telecommunications systems malfunctions. Our business depends on our ability to process a large number of increasingly complex transactions. If any of our operational, accounting, or other data processing systems fail or have other significant shortcomings, we could be materially adversely affected. Similarly, we depend on our employees. We could be materially adversely affected if one or more of our employees cause a significant operational breakdown or failure, either as a result of human error or intentional sabotage or fraudulent manipulation of our operations or systems.

Third parties with whom we do business, including vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns, failures, or capacity constraints of their own systems or employees. Any of these occurrences could diminish our ability to operate our business, or cause financial loss, potential liability to insureds, inability to secure insurance, reputational damage or regulatory intervention, which could materially adversely affect us.

Litigation and legal proceedings against our subsidiaries could have a material adverse effect on our business, financial condition and/or results of operations.

As an insurance holding company, our Subsidiaries are named as defendants in various legal actions in the ordinary course of business. We believe that the outcome of presently pending matters, individually and in the aggregate, will not have a material adverse effect on our consolidated financial position, operating results or liquidity. However, the outcomes of lawsuits cannot be predicted and, if determined adversely, could require us to pay significant damage amounts or to change aspects of our operations, which could have a material adverse effect on our financial results.

Our geographic concentration ties our performance to the business, economic, natural perils, man-made perils, and regulatory conditions within our most concentrated region.

Our revenues and profitability are subject to the prevailing regulatory, legal, economic, political, demographic, competitive, weather and other conditions in the principal states in which we do business. Changes in any of these conditions could make it less attractive for us to do business in such states and would have a more pronounced effect on us compared to companies that are more geographically diversified. In addition, our exposure to severe losses from localized perils, such as earthquakes, hurricanes, tropical storms, tornadoes, wind, ice storms, hail, fires, terrorism, riots and explosions, is increased in those areas where we have written significant numbers of insurance policies.

We are subject to credit risk with regard to our reinsurance counterparties.

Although reinsurance makes the assuming reinsurer liable to us to the extent of the risk ceded, we are not relieved of our primary liability to our insureds as the direct insurer. We cannot be sure that our reinsurers will pay all reinsurance claims on a timely basis or at all. For example, reinsurers may default in their financial obligations to us as the result of insolvency, lack of liquidity, operational failure, fraud, asserted defenses based on agreement wordings or the principle of utmost good faith, asserted deficiencies in the documentation of agreements or other reasons. The failure of a reinsurer to pay us does not lessen our contractual obligations to insureds. If a reinsurer fails to pay the expected portion of a claim or claims, our net losses might increase substantially and adversely affect our financial condition. Any disputes with reinsurers regarding coverage under reinsurance contracts could be time-consuming, costly and uncertain of success.

Downgrades to the credit ratings of our reinsurance counterparties may result in the reduction of rating agency capital credit provided by those reinsurance contracts and could, therefore, result in a downgrade of our own credit ratings. We evaluate each reinsurance claim based on the facts of the case, historical experience with the reinsurer on similar claims and existing case law and include any amounts deemed uncollectible from the reinsurer in our reserve for uncollectible reinsurance.

Damage to our reputation could have a material adverse effect on our business.

Our reputation is one of our key assets. Our ability to attract and retain policyholders is highly dependent upon the external perceptions of our level of service, trustworthiness, business practices, financial condition and other subjective qualities. Negative perceptions or publicity regarding these or other matters, including from actual or alleged conduct by us or our employees, could damage our reputation. Any resulting erosion of trust and confidence among existing and potential policyholders, regulators and other parties important to the success of our business could make it difficult for us to attract new policyholders and maintain existing ones, which could have a material adverse effect on our business, financial condition and results of operations.

Investment Risks

Our investment portfolio is subject to significant market and credit risks, which could result in an adverse impact on our financial conditions or results of operations.

Our results of operations depend, in part, on the performance of our investment portfolio. We seek to hold a diversified portfolio of investments that is managed by professional investment advisory management firms in accordance with our investment policy and routinely reviewed by our Investment Committee. However, our investments are subject to general economic conditions and market risks as well as risks inherent to particular securities.

The value of our investment portfolio is subject to the risk that certain investments may default or become impaired due to deterioration in the financial condition of one or more issuers of the securities held, or due to deterioration in the financial condition of an entity that guarantees an issuer's payments of such investments. Such defaults and impairments could reduce our net investment income and result in realized investment losses.

A severe economic downturn could cause us to incur substantial realized and unrealized investment losses in future periods, which would have an adverse impact on our financial condition, results of operations, debt and financial strength ratings, Insurance Company Subsidiaries' capital liquidity and ability to access capital markets. In addition, losses in our investment portfolio may occur at the same time as underwriting losses and, therefore, exacerbate the adverse effect of the losses on us.

We may be adversely affected by interest rate changes.

Our investment portfolio is predominantly comprised of fixed income securities. These securities are sensitive to changes in interest rates. An increase in interest rates typically reduces the fair market value of fixed income securities. In addition, if interest rates decline, investment income earned from future investments in fixed income securities will be lower. Rising interest rates could result in a significant reduction of our book value. A low investment yield environment could adversely impact our net earnings, as a result of fixed income securities maturing and being replaced with lower yielding securities which impact investing results.

Interest rates are highly sensitive to many factors beyond our control including general economic conditions, governmental monetary policy, and political conditions. See Item 7A ~ *Qualitative and Quantitative Disclosures About Market Risk* for further discussion on interest rate risk.

Liquidity Risks

Any debt service obligations will reduce the funds available for other business purposes, and the terms and covenants relating to our current and future indebtedness could adversely impact our financial performance and liquidity.

As of December 31, 2022, we had $24.4 million of senior unsecured notes (the "Notes") outstanding and $10.5 million of subordinated notes (the "Subordinated Notes") outstanding. The Company's line of credit matured on December 1, 2022, and was not renewed. See Note 9 ~ *Debt* for additional details. We are subject to risks typically associated with debt financing, such as insufficient cash flow to meet required debt service payment obligations and the inability to refinance existing indebtedness. The Notes are due on September 30, 2023.

Our ability to make payments on our indebtedness is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If we are unable to generate sufficient cash flow to service our debt and meet our other commitments, we may need to restructure or refinance all or a portion of our debt, sell material assets or operations or raise additional debt or equity capital. We may not be able to effect any of these actions on a timely basis, on commercially reasonable terms or at all, and these actions may not be sufficient to meet our capital requirements. In addition, the terms of our existing or future debt arrangements may restrict us from effecting any of these alternatives. In addition, the Subordinated Notes contain various restrictive covenants that relate to the Company's tangible net worth, fixed-charge coverage ratios, dividend paying capacity, reinsurance retentions, and risk-based capital ratios. If we are unable to meet debt covenant requirements or to obtain future waivers regarding such failures, we could be in breach of our credit agreement. Any such breach could cause significant disruption to our operations, including a requirement to immediately repay our indebtedness, and would have severe adverse effects on our liquidity and financial flexibility.

Our ability to meet ongoing cash requirements, service debt and pay dividends may be limited by our holding company structure and regulatory constraints restricting dividends or other distributions by our Insurance Company Subsidiaries.

We are a holding company that transacts the majority of our business through our Insurance Company Subsidiaries and, as a result, our principal sources of funds are payments from our Insurance Company Subsidiaries, including intercompany service fees and dividends. Our ability to meet our obligations on our outstanding debt and pay our expenses, depends on continuing to receive sufficient funds from our Insurance Company Subsidiaries. We have met our outstanding cash flow obligations at the holding company level primarily through intercompany service fees we receive as well as direct expense reimbursements. We may also use dividends from our Insurance Company Subsidiaries, however, insurance regulations limit such dividend payments. At this time any dividend payment from our Insurance Company Subsidiaries would need prior regulatory approval. Any significant reduction in the intercompany service fees we receive, and any regulatory or other limitations on the payment of dividends to us from our Insurance Company Subsidiaries, may adversely affect our ability to meet our debt obligations and pay our expenses.

Legal and Regulatory Risks

We are subject to extensive regulation, which may adversely affect our ability to achieve our business objectives. In addition, if we fail to comply with these regulations, we may be subject to penalties, including fines and suspensions, which may adversely affect our financial condition and results of operations.

As a holding company which owns insurance companies domiciled in the United States, we and our admitted Insurance Company Subsidiaries are subject to extensive regulation, primarily by Michigan (the domiciliary state for CIC and WPIC) and to a lesser degree, the other jurisdictions in which we operate. Most insurance regulations are designed to protect the interests of insurance policyholders, as opposed to the interests of shareholders. These regulations generally are administered by a department of insurance in each state and relate to, among other things, authorizations to write certain lines of business, capital and surplus requirements, reserve requirements, rate and form approvals, investment and underwriting limitations, affiliate transactions, dividend limitations, cancellation and non-renewal of policies, changes in control, solvency and a variety of other financial and non-financial aspects of our business. These laws and regulations are regularly re-examined and any changes in these laws and regulations or new laws may be more restrictive, could make it more expensive to conduct business or otherwise adversely affect our operations. State insurance departments also conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports relating to financial condition, holding company issues and other matters. These regulatory requirements may impose timing and expense or other constraints that could adversely affect our ability to achieve some or all of our business objectives.

In addition, regulatory authorities have broad discretion to deny or revoke licenses for various reasons, including the violation of regulations. In some instances, where there is uncertainty as to applicability, we follow practices based on our interpretations of regulations or practices that we believe are generally followed by the industry. These practices may turn out to be different from the interpretations of regulatory authorities. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our activities or otherwise penalize us. This could adversely affect our ability to operate our business.

The admitted market is subject to more state regulation than the E&S market, particularly with regard to rate and form filing requirements, restrictions on the ability to exit lines of business, premium tax payments and membership in various state associations, such as guaranty associations. Some states have deregulated their commercial insurance markets. We cannot predict the effect that further deregulation would have on our business, financial condition or results of operations.

The State of Michigan has adopted the NAIC's calculation to measure the adequacy of statutory capital of U.S.-based insurers, known as RBC. The RBC calculation establishes the minimum amount of capital necessary for a company to support its overall business operations. Insurers falling below a calculated threshold may be subject to varying degrees of regulatory action, including supervision, rehabilitation or liquidation. Failure to maintain adequate RBC at the required levels could adversely affect the ability of our Insurance Company Subsidiaries to maintain regulatory authority to conduct their business.

The State of Michigan has adopted the NAIC's holding company act and regulations. This act requires, among other things, that:

- An insurance holding company system's ultimate controlling person submit an annual enterprise risk report to its domiciliary state insurance regulator which identifies activities, circumstances or events involving one or more affiliates of an insurer that may have a material adverse effect upon the financial condition or liquidity of the insurer or its insurance holding company system as a whole,
- A controlling person to submit prior notice to its domiciliary insurance regulator of a divestiture of control, and
- Insurers comply with certain minimum requirements for cost sharing and management agreements between the insurer and its affiliates.

The State of Michigan also adopted the NAIC's Risk Management and Own Risk and Solvency Assessment Model Act (the "ORSA Model Act"). The ORSA Model Act requires that an insurance holding company system's Chief Risk Officer to submit annually to its domiciliary regulator an Own Risk and Solvency Assessment Summary Report ("ORSA"). The ORSA is a confidential internal assessment conducted by that insurer of the material and relevant risks identified by the insurer associated with the insurer's current business plan and the sufficiency of capital resources to support those risks. The Company is currently exempt from providing an ORSA summary report as it does not meet the minimum premium requirements. We may be required to comply with this requirement in the future if our gross written premium exceeds $500 million annually.

We cannot predict the impact these requirements or any other regulatory requirements may have on our business, financial condition or results of operations.

Our Insurance Company Subsidiaries are subject to minimum capital and surplus requirements. Failure to meet these requirements could subject us to regulatory action.

Our Insurance Company Subsidiaries are subject to minimum capital and surplus requirements imposed under the laws of their respective states of domicile and each state in which they issue policies. As of December 31, 2022, our Insurance Company Subsidiaries were in compliance with all such reserves. Any failure by one of our Insurance Company Subsidiaries to meet minimum capital and surplus requirements will subject it to corrective action. This may include requiring the adoption of a comprehensive financial plan, revocation of its license to sell insurance products or placing the subsidiary under state regulatory control. It may also result in our Insurance Company Subsidiaries being limited in their ability to make a dividend to us and could be a factor in causing rating agencies to downgrade our ratings. Any new minimum capital and surplus requirements adopted in the future may require us to increase the capital and surplus of our Insurance Company Subsidiaries, which we may not be able to do.

We may become subject to additional government or market regulation which may have a material adverse impact on our business.

Market disruptions like those experienced during the credit-driven financial market collapse in 2008, as well as the dramatic increase in the capital allocated to alternative asset management during recent years, have led to increased governmental as well as self-regulatory scrutiny of the insurance industry in general. In addition, certain legislation proposing greater regulation of the industry is periodically considered by governing bodies of some jurisdictions.

Our business could be adversely affected by changes in state laws, including those relating to asset and reserve valuation requirements, surplus requirements, limitations on investments and dividends, enterprise risk and RBC requirements and, at the federal level, by laws and regulations that may affect certain aspects of the insurance industry, including proposals for preemptive federal regulation. The U.S. federal government generally has not directly regulated the insurance industry except for certain areas of the market, such as insurance for flood, nuclear and terrorism risks. However, the federal government has undertaken initiatives or considered legislation in several areas that may affect the insurance industry, including tort reform and corporate governance. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") also established the Federal Insurance Office, which is authorized to study, monitor and report to Congress on the insurance industry and to recommend that the Financial Stability Oversight Council (the "FSOC") designate an insurer as an entity posing risks to U.S. financial stability in the event of the insurer's material financial distress or failure. In December 2013, the Federal Insurance Office issued a report on alternatives to modernize and improve the system of insurance regulation in the United States, including increasing national uniformity through either a federal charter or effective action by the states. Any additional regulations established as a result of the Dodd-Frank Act or actions in response to the Federal Insurance Office Report could increase our costs of compliance or lead to disciplinary action. In addition, legislation has been introduced from time to time that, if enacted, could result in the federal government assuming a more direct role in the regulation of the insurance industry, including federal licensing in addition to or in lieu of state licensing and reinsurance for natural catastrophes. We are unable to predict whether any legislation will be enacted or any regulations will be adopted, or the effect any such developments could have on our business, financial condition or results of operations.

It is impossible to predict what, if any, changes in the regulations applicable to us, the markets in which we operate, trade and invest or the counterparties with which we do business may be instituted in the future. Any such regulation could have a material adverse impact on our business.

The effect of emerging claim and coverage issues on our business is uncertain.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either broadening coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until sometime after we have issued insurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a contract is issued.

Rating Agency Risks

A decline in our financial strength rating may result in a reduction of new or renewal business.

Participants in the insurance industry use ratings from independent ratings agencies, such as A.M. Best Company, Inc. ("A.M. Best") and Kroll Bond Rating Agency ("Kroll") as an important means of assessing the financial strength and quality of insurers. In setting their ratings, A.M. Best and Kroll utilize a quantitative and qualitative analysis of a company's balance sheet strength, operating performance and business profile. These analyses include comparisons to peers and industry standards as well as assessments of operating plans, philosophy and management. For A.M. Best, the ratings range from A++, or superior, to F for in liquidation. Kroll's ratings range from AAA (extremely strong) to R (under regulatory supervision). As of the filing date of this Annual Report on Form 10-K, A.M. Best has assigned financial strength ratings of B+ with a stable outlook for CIC and WPIC. A rating of B+ means A.M. Best considers both companies to have a "good" ability to meet ongoing financial obligations. Kroll has given CIC and WPIC an insurance financial strength rating of BBB+ with a stable outlook as of the date of this Annual Report on Form 10-K. A BBB+ rating indicates that the insurer's financial condition is adequate.

A.M. Best and Kroll assign ratings that are intended to provide an independent opinion of an insurance company's ability to meet its financial obligations to policyholders and such ratings are not evaluations directed to investors. A.M. Best and Kroll periodically review our ratings and may revise ratings downward or revoke them at their sole discretion based primarily on their analyses of our balance sheet strength (including capital adequacy and loss and loss adjustment expense reserve adequacy), operating performance and business profile. Factors that could affect such analyses include but are not limited to:

- If unfavorable financial, regulatory or market trends affect us, including excess market capacity;
- If we incur operating losses or significant investment portfolio losses;
- If we have unresolved issues with government regulators;

- If we are unable to retain our senior management or other key personnel;
- If A.M. Best or Kroll alters its capital adequacy assessment methodology in a manner that would adversely affect our rating.

In addition, with a heightened level of scrutiny placed on many financial institutions (including insurance companies) in recent years, rating agencies may increase the capital and other requirements to maintain certain ratings levels. These and other factors could result in a downgrade of our rating. A downgrade of our rating could cause our current and future agents, retail brokers and insureds to choose other, more highly-rated competitors. A downgrade of this rating could also increase the cost or reduce the availability of reinsurance to us. A downgrade or withdrawal of any rating could severely limit or prevent us from writing new and renewal insurance contracts and would have a material adverse effect on our financial condition and results of operations.

We are subject to assessments and other surcharges from state guaranty funds, and mandatory state insurance facilities, which may reduce our profitability.

Our Insurance Company Subsidiaries are subject to assessments in most states where we are licensed for the provision of funds necessary for the settlement of covered claims under certain policies provided by impaired, insolvent or failed insurance companies. These assessments are levied by guaranty associations within the state in proportion to the premiums written by member insures in the lines of business in which the impaired, insolvent or failed insurer was engaged. Maximum contributions required by law in any one year vary by state, and have historically been less than one percent of annual premiums written. We cannot predict with certainty the amount of future assessments because they depend on factors outside our control, such as insolvencies of other insurance companies. Significant assessments could have a material adverse effect on our financial condition and results of operations.

General Risk Factors

The price of our common stock may be volatile and limited public float and low trading volume for our shares may have an adverse impact on the share price or make it difficult to liquidate.

The trading price of our common stock may be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control and may not be related to our operating performance. These fluctuations could be significant and could cause a loss in the amount invested in our shares of common stock.

In addition, the stock market in general, and the market for insurance companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. At times, securities class action litigation has been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. This litigation, if instituted against us, could result in substantial costs, divert our management's attention and resources, and harm our business, operating results, and financial condition.

As a result of these factors, investors in our common stock may not be able to resell their shares at or above their purchase price or may not be able to resell them at all. These market and industry factors may materially reduce the market price of our common stock, regardless of our operating performance. In addition, price volatility may be greater if the public float and the trading volume of our common stock remain low.

We may require additional capital in the future, which may not be available or available only on unfavorable terms.

Our future capital requirements depend on many factors, including our ability to grow premium volume and underwrite the business profitably. To the extent that our existing capital is insufficient, we may need to raise additional capital in the future through offerings of debt or equity securities or otherwise to:

- Fund liquidity needs caused by underwriting or investment losses;
- Replace capital lost in the event of significant losses or adverse reserve development;
- Satisfy letters of credit or guarantee bond requirements that may be imposed by our clients or by regulators;

- Meet rating agency or regulatory capital requirements; or
- Respond to competitive pressures.

Any equity or debt financing, if available at all, may be on terms that are unfavorable to us. Furthermore, any additional capital raised through the sale of equity could dilute your ownership interest in the Company and may cause the value of our shares to decline. Additional capital raised through the issuance of debt may result in creditors having rights, preferences and privileges senior or otherwise superior to those of the holders of our shares and may limit our flexibility in operating our business and make it more difficult to obtain capital in the future. Disruptions, uncertainty, or volatility in the capital and credit markets may also limit our access to capital required to operate our business. If we are not able to obtain adequate capital, our business, financial condition and results of operations could be materially adversely affected.

We cannot assure you that we will declare or pay dividends on our common shares in the future so any returns may be limited to the value of our stock.

We currently anticipate that we will retain future earnings for the development, operation and expansion of our business and do not anticipate declaring or paying any cash dividends for the foreseeable future. Any return to shareholders will therefore be limited to appreciation in value of their stock, if any.

In addition, any determination to declare or pay future dividends to our shareholders will be at the discretion of our Board and will depend on a variety of factors, including (1) our financial condition, liquidity, results of operations (including our ability to generate cash flow in excess of expenses and our expected or actual net income), retained earnings and collateral and capital requirements, (2) general business conditions, (3) legal, tax and regulatory limitations, (4) contractual prohibitions and other restrictions, (5) the effect of a dividend or dividends upon our financial strength ratings and (6) any other factors that our Board deems relevant.

Our principal shareholders and management own a significant percentage of our stock and are able to exert significant control over matters subject to shareholder approval.

As of December 31, 2022, our executive officers, directors, 5% shareholders and their affiliates owned approximately 69.3% of our voting stock. Therefore, these shareholders have the ability to influence us through their ownership position. These shareholders may be able to significantly influence all matters requiring shareholder approval. For example, these shareholders may be able to significantly influence elections of directors, amendments of our organizational documents, or approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may feel are in your best interest as one of our shareholders.

We incur significant costs as a result of operating as a public company, and our management is required to devote substantial time to related compliance initiatives.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, we are subject to the reporting requirements of the Exchange Act, which require, among other things, that we file with the SEC, annual, quarterly and current reports with respect to our business and financial condition. We are also subject to other reporting and corporate governance requirements, including certain requirements of Nasdaq and provisions of the Sarbanes-Oxley Act and the regulations promulgated thereunder, which imposes significant compliance obligations upon us.

The Sarbanes-Oxley Act and the Dodd-Frank Act, as well as rules subsequently implemented by the SEC and Nasdaq, have increased regulation of, and imposed enhanced disclosure and corporate governance requirements on, public companies. Our efforts to comply with these laws, regulations and standards have increased our operating costs and may divert management's time and attention from revenue-generating activities.

Other expenses associated with being a public company include increases in auditing, accounting and legal fees and expenses, investor relations expenses, increased directors' fees and director and officer liability insurance costs, registrar and transfer agent fees and listing fees, as well as other expenses.

Certain provisions of our corporate governance documents and Michigan law could discourage, delay or prevent a merger or acquisition at a premium price.

Our amended and restated articles of incorporation and bylaws contain provisions that may make the acquisition of our Company more difficult without the approval of our board of directors (our "Board"). These include provisions that, among other things:

- Permit the Board to issue up to 10 million shares of preferred stock, with any rights, preferences and privileges as they may determine (including the right to approve an acquisition or other change in control);
- Provide that the authorized number of directors may be fixed only by the Board in accordance with our amended and restated bylaws;
- Do not provide for cumulative voting rights (therefore allowing the holders of a majority of the shares entitled to vote in any election of directors to elect all of the directors standing for election);
- Provide that all vacancies and newly created directorships may be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum;
- Prohibit removal of directors without cause;
- Prohibit shareholders from calling special meetings of shareholders;
- Requires unanimous consent for shareholders to take action by written consent without approval of the action by our Board;
- Provide that shareholders seeking to present proposals before a meeting of shareholders or to nominate candidates for election as directors at a meeting of shareholders must provide advance notice in writing and also comply with specified requirements related to the form and content of a shareholder's notice;
- Require at least 80% supermajority shareholder approval to alter, amend or repeal certain provisions of our amended and restated articles of incorporation; and
- Require at least 80% supermajority shareholder approval in order for shareholders to adopt, amend or repeal our amended and restated bylaws.

These provisions may frustrate or prevent any attempts by our shareholders to replace or remove our current management by making it more difficult for shareholders to replace members of the Board, which is responsible for appointing members of our management.

In addition, our 2015 Omnibus Incentive Plan permits the Board or a committee thereof to accelerate, vest or cause the restrictions to lapse with respect to outstanding equity awards, in the event of, or immediately prior to, a change in control. Such vesting or acceleration could discourage the acquisition of our Company.

We could also become subject to certain anti-takeover provisions under Michigan law which may discourage, delay or prevent someone from acquiring us or merging with us, whether or not an acquisition or merger is desired by or beneficial to our shareholders. If a corporation's board of directors chooses to "opt in" to certain provisions of Michigan Law, such corporation may not, in general, engage in a business combination with any beneficial owner, directly or indirectly, of 10% of the corporation's outstanding voting shares unless the holder has held the shares for five years or more or, among other things, the board of directors has approved the business combination. Our Board has not elected to be subject to this provision, but could do so in the future. Any provision of our amended and restated articles of incorporation or bylaws or Michigan law that has the effect of delaying or deterring a change in control could limit the opportunity for our shareholders to receive a premium for their shares, and could also affect the price that some investors are willing to pay for our common stock otherwise.

Our ability to meet our obligations on our outstanding debt, including making principal and interest payments on the Notes and the Subordinated Notes, may be limited by our holding company structure and regulatory constraints restricting dividends or other distributions by our Insurance Company Subsidiaries.

We are a holding company that transacts the majority of our business through our Insurance Company Subsidiaries and, as a result, our principal sources of funds are payments from our Insurance Company Subsidiaries, including intercompany service fees and dividends. Our ability to meet our obligations on our outstanding debt obligations, including making principal and interest payments on the Notes, depends on continuing to receive sufficient funds from our Insurance Company Subsidiaries. We have met our outstanding debt obligations primarily through intercompany service fees we receive. We may also use dividends from our Insurance Company Subsidiaries, however, insurance regulations limit such dividend payments. Dividend payments may be further constrained by rating agency capital requirements or other business considerations. As a result, our ability to use dividends as a source of funds to meet our debt obligations may be significantly limited. Any significant reduction in the intercompany service fees we receive, and any regulatory and other limitations on the payment of dividends to us by our Insurance Company Subsidiaries, may adversely affect our ability to pay interest on the Notes as it comes due and the principal of the Notes at their maturity.

Although the Notes are currently listed on Nasdaq, the trading market for the Notes may be limited, which could affect the market price of the Notes or your ability to sell them.

Although the Notes are currently listed on Nasdaq, we cannot provide any assurances that it will remain on Nasdaq or that an active trading market will exist for the Notes or that you will be able to sell your Notes. The Notes may trade at a discount to their face value depending on access to markets, prevailing interest rates, the market for similar securities, our credit ratings, general economic conditions, our financial condition, performance and prospects and other factors. We cannot assure you that a liquid trading market will be available for the Notes, that you will be able to sell the Notes at a particular time or that the price you receive when you sell will be favorable. To the extent an active trading market does not exist, the liquidity and trading price for the Notes may be harmed.

If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the Notes.

Any default under the agreements governing our indebtedness, including other indebtedness to which we may be a party that is not waived by the required lenders, and the remedies sought by the holders of such indebtedness could make us unable to pay principal and interest on the Notes and substantially decrease the market value of the Notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under any other debt we may incur in the future could elect to terminate their commitments, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation.

There are limited covenants in the Indenture relating to our Notes.

In addition to our currently outstanding indebtedness and other liabilities, the Indenture does not restrict us or our subsidiaries from incurring additional debt or other liabilities, including additional senior debt or secured debt under our secured credit facilities. If we incur additional debt or liabilities, our ability to pay the obligations on the Notes could be adversely affected.

Our indebtedness, including the indebtedness we or our subsidiaries may incur in the future, could have important consequences for the holders of the Notes, including:

- limiting our ability to satisfy our obligations with respect to the Notes;
- increasing our vulnerability to general adverse economic and industry conditions;

- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, and other general corporate requirements;
- requiring a substantial portion of our cash flow from operations for the payment of principal of, and interest on, our indebtedness and thereby reducing our ability to use our cash flow to fund working capital, capital expenditures and general corporate requirements; and
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry; and putting us at a disadvantage compared to competitors with less indebtedness.

In addition, we have limited restrictions under the Indenture from granting security interests in our assets, paying dividends or issuing or repurchasing securities.

Moreover, the Indenture does not require us to maintain any financial ratios or specific levels of net worth, revenues, income, cash flow or liquidity and, accordingly, does not protect holders of the Notes in the event that we experience material adverse changes in our financial condition or results of operations. Holders of the Notes have limited protection under the Indenture in the event of a highly leveraged transaction, reorganization, default under our existing indebtedness, restructuring, merger or similar transaction.

For these reasons, you should not consider the covenants in the Indenture a significant factor in evaluating whether to invest in the Notes.

The Notes are structurally subordinated to the indebtedness and other liabilities of our subsidiaries.

The Notes are obligations exclusively of Conifer Holdings, Inc. and not of any of our subsidiaries. None of our subsidiaries is a guarantor of the Notes and the Notes are not guaranteed by any subsidiary we may acquire or create in the future. Any assets of our subsidiaries will not be directly available to satisfy the claims of our creditors, including holders of the Notes. Even if we are recognized as a creditor of one or more of our subsidiaries, our claims would still be effectively subordinated to any security interests in the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims. Consequently, the Notes are structurally subordinated to all indebtedness and other liabilities of any of our subsidiaries and any subsidiaries that we may in the future acquire or establish. Our subsidiaries may incur substantial indebtedness in the future, all of which would be structurally senior to the Notes.

Volatility in the market price and trading volume of our common stock could adversely impact the trading price of the Notes.

The market price of our common stock could fluctuate significantly for many reasons, including in response to the risks described in this section or any number of our financial filings or disclosures or for reasons unrelated to our operations, such as reports by industry analysts, investor perceptions or negative announcements by our customers, competitors or suppliers regarding their own performance, as well as industry conditions and general financial, economic and political instability. A decrease in the market price of our common stock could adversely impact the trading price of the Notes.

We may redeem the Notes before maturity, and holders of the redeemed Notes may be unable to reinvest the proceeds at the same or a higher rate of return.

We may redeem all or a portion of the Notes. If redemption does occur, holders of the redeemed Notes may be unable to reinvest the money received in the redemption at a rate that is equal to or higher than the rate of return on the Notes.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease office space in Troy, Michigan, where our principal executive office is located. We also lease offices in Southfield, Michigan; Jacksonville and Miami, Florida. We believe that our facilities are adequate for our current needs and that suitable additional or substitute space will be available as needed.

ITEM 3. LEGAL PROCEEDINGS

We are party to legal proceedings which arise in the ordinary course of business. We believe that the outcome of such matters, individually and in the aggregate, will not have a material adverse effect on our consolidated financial position, operating results or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Shareholder Information

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Phone: (248) 559-0840

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American Stock Transfer & Trust Co, LLC
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Brooklyn, NY 11219

Corporate Counsel
Honigman Miller Schwartz and Cohn, LLP
600 Woodward Avenue
2290 First National Building
Detroit, MI 48226-3506

Shareholder Relations and Form 10-K

A copy of our 2022 Annual Report and Form 10-K, as filed with the Securities and Exchange Commission, may be obtained upon written request to our Financial Reporting Department at our corporate headquarters at ir@cnfrh.com.

Share Price and Dividend Information

Our common stock is traded on the Nasdaq under the symbol "CNFR." The following table sets forth the high and low sale prices of our common shares as reported by the Nasdaq for each period shown:

	High	Low
2021		
First Quarter	4.82	2.80
Second Quarter	4.08	2.50
Third Quarter	4.33	2.51
Fourth Quarter	3.07	2.10
2022		
First Quarter	2.50	2.16
Second Quarter	2.44	1.38
Third Quarter	2.20	1.43
Fourth Quarter	2.32	1.34

Neither Michigan law nor our amended and restated articles of incorporation requires our board of directors to declare dividends on our common stock. Conifer Holdings, Inc. is a holding company that has no substantial revenues of its own, and relies primarily on intercompany service fees, cash dividends or distributions from its subsidiaries to pay operating expenses, service debts, and pay dividends to shareholders. The payment of dividends by the Insurance Company Subsidiaries is limited under the laws and regulations of their respective state of domicile. These regulations stipulate the maximum amount of annual dividends or other distributions available to shareholders without prior approval of the relevant regulatory authorities. Any future determination to declare cash dividends on our common stock will be made at the discretion of the board of directors and will depend on the financial condition, results of operations, capital requirements, general business conditions and other factors that the board of directors may deem relevant. The Parent Company has not historically paid dividends and does not anticipate paying cash dividends on its common stock for the foreseeable future.

For additional information regarding dividend restrictions, refer to the *Liquidity and Capital Resources* section of *Management's Discussion and Analysis.*

Shareholders of Record

As of March 27, 2023, there were 27 shareholders of record of our common stock. A substantially greater number of holders are beneficial owners whose shares are held of record by banks, brokers and other nominees.

Repurchases of Company's Stock

On December 5, 2018, the Company's Board of Directors authorized a stock repurchase program, under which the Company may repurchase up to one million shares of the Company's common stock. Shares may be purchased in the open market or through negotiated transactions. The program may be terminated or suspended at any time, at the discretion of the Company. The Company may in the future enter into a Rule 10b5-1 trading plan to effect a portion of the authorized purchases, if criteria set forth in the plan are met. Such a plan would enable the Company to repurchase its shares during periods outside of its normal trading windows, when the Company typically would not be active in the market. The timing of purchases, and the exact number of any shares to be purchased, will depend on market conditions. The repurchase program does not include specific price targets or timetables. The company did not repurchase any shares of stock for the year ended December 31, 2022 related to the stock repurchase program. For the year ended December 31, 2022, the Company repurchased 1,968 shares of stock valued at approximately $4,000 related to the vesting of the Company's restricted stock units. Upon the repurchase of the Company's shares, the shares remain authorized, but not issued or outstanding.

Recent Sales of Unregistered Securities

In August 2022, the Company issued $5.0 million of common equity through a private placement of 2,500,000 shares priced at $2.00 per share. The participants in the private placement consisted of members of the Company's Board of Directors.

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

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following tables set forth selected consolidated historical financial information of Conifer Holdings, Inc. and Subsidiaries as of the dates and for the periods indicated. The selected financial data for the years ended December 31, 2022, 2021, 2020, 2019, and 2018 were derived from our audited consolidated financial statements and related notes thereto.

These historical results are not necessarily indicative of results to be expected for any future period. The following financial information should be read in conjunction with "*Management's Discussion and Analysis of Financial Condition* *and Results of Operations*" and our consolidated financial statements and the related notes thereto included elsewhere in this report (dollars in thousands, except for per share data).

	Year Ended December 31,				
	2022	2021	2020	2019	2018
Operating Results:					
Gross written premiums	$ 138,019	$ 132,095	$ 111,335	$ 101,853	$ 104,368
Ceded written premiums	(46,787)	(30,666)	(18,395)	(14,129)	(15,282)
Net written premiums	$ 91,232	$ 101,429	$ 92,940	$ 87,724	$ 89,086
Net earned premiums	$ 96,711	$ 98,802	$ 89,103	$ 89,089	$ 93,811
Net investment income	3,043	1,968	3,156	4,031	3,336
Net realized investment gains (losses)	(1,505)	2,878	8,126	1,196	61
Change in fair value of equity securities	403	(2,020)	228	(427)	121
Gain from VSRM Transaction	8,810	—	—	—	—
Loss portfolio transfer risk fee	(5,400)	—	—	—	—
Other gains (losses)	59	11,664	260	—	—
Other income	2,768	2,671	2,615	2,109	1,582
Total revenue	104,889	115,963	103,488	95,998	98,911
Losses and loss adjustment expenses, net	81,440	69,861	56,228	59,744	62,515
Policy acquisition costs	22,179	28,451	26,105	24,911	25,534
Operating expenses	18,789	16,509	18,468	17,582	17,683
Interest expense	2,971	2,852	2,925	2,882	2,644
Total expenses	125,379	117,673	103,726	105,119	108,376
Income (loss) before income taxes	(20,490)	(1,710)	(238)	(9,121)	(9,465)
Equity earnings (losses) in affiliates, net of tax	368	824	839	386	290
Income tax expense (benefit)	(9,441)	208	6	(913)	52
Net income (loss)	(10,681)	(1,094)	595	(7,822)	(9,227)
Net income (loss) allocable to common shareholders	$ (10,681)	$ (1,094)	$ 595	$ (7,822)	$ (9,227)
Net income (loss) per share allocable to common shareholders, basic and diluted	$ (1.00)	$ (0.11)	$ 0.06	$ (0.88)	$ (1.08)
Weighted average common shares outstanding, basic and diluted	10,692,090	9,691,998	9,625,059	8,880,107	8,543,876

	Year Ended December 31,				
	2022	2021	2020	2019	2018
Balance Sheet Data:					
Cash and invested assets	$ 165,432	$ 192,640	$ 191,400	$ 177,196	$ 150,894
Reinsurance recoverables	89,304	41,691	26,356	27,734	34,745
Total assets	312,350	290,404	261,597	247,265	232,752
Unpaid losses and loss adjustment expenses	165,539	139,085	111,270	107,246	92,807
Unearned premiums	67,887	65,269	56,224	51,503	52,852
Debt	33,876	33,564	40,997	35,824	33,502
Total liabilities	293,400	249,901	217,184	204,540	190,589
Total shareholders' equity	18,950	40,503	44,413	42,725	42,163
Other Data:					
Shareholders' equity per common share outstanding	$ 1.55	$ 4.17	$ 4.59	$ 4.45	$ 4.97
Regulatory capital and surplus (1)	59,922	63,854	64,066	59,561	63,993

	2022	2021	2020	2019	2018
Underwriting Ratios:					
Loss ratio	83.9%	70.5%	62.8%	66.8%	66.4%
Expense ratio	38.4%	42.4%	45.6%	44.0%	45.9%
Combined ratio	122.3%	112.9%	108.4%	110.8%	112.3%

(1) Regulatory and capital surplus is the excess of assets over liabilities of our Insurance Company Subsidiaries and is determined in accordance with statutory accounting principles as determined by the domiciliary state for each Insurance Company Subsidiary. In 2018, CIC issued a surplus note to WPIC for $10.0 million. The $10.0 million surplus note is eliminated from the combined regulatory capital and surplus balance as of December 31, 2022, 2021, 2020, 2019, and 2018.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements, related notes and other financial information appearing elsewhere in this Annual Report on Form 10-K, filed with the U. S. Securities and Exchange Commission ("SEC").

Forward-Looking Statements

Certain statements contained in this Annual Report on Form 10-K, which are not statements of historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, as Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements give current expectations or forecasts of future events or our future financial or operating performance. Words such as "anticipate," "believe," "estimate," "expect," "will," "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, which could cause our actual results to differ materially from those in the forward-looking statements, including those described above in Item 1A Risk Factors 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.

Recent Developments

COVID-19

COVID-19 (the "Pandemic") caused significant disruption to public health, the global economy, financial markets, and commercial, social and community activity in general. As there has been a significant reduction in reported cases and correspondingly a reduction in government restrictions, we see reduced risk to our business. We continue to monitor potential risks the Pandemic may present including a potential resurgence. Our exposure to the Pandemic is manifold. The majority of our employees continue to work remotely however strict "shelter-in-place" or "stay-at-home" orders have been lifted. A significant portion of our revenues are generated from the hospitality sector within the U.S. which remains under stress due to the threats of resurgence and resource shortages that resulted from the Pandemic.

We have continued to provide customer service, process new and renewal business, handle claims and otherwise manage all operations even though the vast majority of the staff is working remotely. To date, we have not seen a major disruption in our business as a result of the Pandemic and currently do not expect to see a material negative impact to our financial position or results of operations as a result of the Pandemic.

VSRM Transaction

Prior to October 13, 2022, Sycamore owned 50% of Venture Agency Holdings, Inc. ("Venture") and has accounted for its ownership under the equity method of accounting. On October 13, 2022, Sycamore purchased the other 50% of Venture from an individual for $9.7 million. Following this purchase, Sycamore owned 100% of Venture, which was then renamed to VSRM, Inc. ("VSRM"). VRSM and its two wholly owned subsidiaries, The Roots Insurance Agency, Inc. ("Roots") and Mitzel Insurance Agency, Inc. ("Mitzel") were incorporated into the Company's consolidated financial statements as of the date of the acquisition.

The Company recognized Sycamore's purchase of the individual's shares of VSRM as a step acquisition and revalued all assets and liabilities upon the acquisition date. This resulted in the recognition of an $8.8 million non-operating gain reported in the Consolidated Statements of Operations as Gain from VSRM Transaction in the fourth quarter of 2022. The Company also utilized $12.5 million of federal tax net operating losses carried forward and $14.8 million state tax net operating losses carried forward, for a net-of-tax benefit of $9.4 million. VSRM retained $8.9 million of debt, and $9.4 million of tax liabilities, as well as other smaller assets and liabilities that did not go with the transaction.

The fair value of the equity interest of VSRM immediately prior to the acquisition by Sycamore was $10.1 million. The fair value techniques used to measure the fair value of VSRM included using the carrying value of all current assets and liabilities as their carrying values approximated their fair values. Intangible assets were reviewed based on recent valuations performed by third party valuation experts and the net realized proceeds received upon the sale of the Security & Alarm Business sold the following day.

On October 14, 2022, VSRM sold all of its security guard and alarm installation insurance brokerage business (the "Security & Alarm Business") to a third party insurance brokerage firm for $38.2 million. As part of the transaction, the individual who previously owned 50% of VSRM transitioned employment to the buyer, along with a team of approximately eight other employees of VSRM. The Company recognized this transaction as the sale of a business. Because all assets and liabilities were just adjusted to fair value from the step acquisition described above, the basis of the net assets sold equaled the net proceeds from the sale, thus there was no gain recognized upon the sale of the Security & Alarm Business.

On December 30, 2022, VSRM contributed its remaining business, including its two wholly owned subsidiaries (Mitzel and Roots) to a new wholly owned subsidiary, Sycamore Specialty Underwriters, LLC ("SSU"). The business contributed to SSU consisted of customer accounts of substantially all of the personal lines business and a small subset of the commercial lines business underwritten by the Insurance Company Subsidiaries, and all of the customer accounts VSRM produced for third-party insurers, other than the security guard and alarm installation brokerage business previously sold.

On December 31, 2022, Andrew D. Petcoff purchased 50% of SSU from VSRM, Inc. for $1,000. As a result, SSU and its two wholly owned subsidiaries, Roots and Mitzel, are no longer consolidated in the Company's consolidated financial statements as of December 31, 2022, and VSRM's investment in SSU is accounted for using the equity method. The net assets transferred to SSU had a fair value of $0 at the time of the contribution. There was no gain or loss recognized upon the sale of half of SSU to Mr. Petcoff. Included in the net assets transferred to SSU was a $1.0 million promissory note payable, a liability that was assumed by SSU. The note payable was an obligation that originated as part of the Venture Transaction described below, and is payable to CIC.

In order to determine the value of the portion of the business contributed to SSU, the Company obtained a third party valuation based on a weighting of discounted cash flows and earnings before interest, taxes, depreciation and amortization (EBITDA) multiple valuation methods. The valuation included significant estimates and assumptions related to (i) forecasted revenue and EBITDA and (ii) the selection of the EBITDA multiple and discount rate.

Sale of Certain Agency Business

On June 30, 2021, Sycamore sold to Venture Agency Holdings, Inc., a related party, the customer accounts and other related assets of some of its personal and commercial lines of business (the “Venture Transaction”). Sycamore will continue to produce various personal and commercial lines that it did not sell which is substantially all produced for, and underwritten by, our Insurance Company Subsidiaries. We recognized an $8.9 million gain on the sale which is reflected in Other Gains in the Consolidated Statement of Operations. In order to determine the value of the portion of the business sold, the Company obtained a third party valuation based on a weighting of discounted cash flows and earnings before interest, taxes, depreciation and amortization (EBITDA) multiple valuation methods. The valuation included significant estimates and assumptions related to (i) forecasted revenue and EBITDA and (ii) the selection of the EBITDA multiple and discount rate.

The purchase price was $10.0 million of which $1.0 million was paid in cash on June 30, 2021, and $9.0 million was in the form of two promissory notes (one for $6.0 million and one for $3.0 million). Both notes require interest-only quarterly payments at a per annum rate of 7.0%, with a five-year maturity. There are no prepayment penalties. On December 14, 2021, Venture paid off the $3.0 million note. On October 20, 2022, Venture paid down $5.0 million of the $6.0 million note.

The remaining $1.0 million promissory note was assumed by SSU as part of the contribution of business to SSU described above.

The assets sold included the customer accounts (mainly agency-related new and renewal rights) of substantially all of the personal lines business and a small subset of the commercial lines business underwritten by our Insurance Company Subsidiaries, and all of the customer accounts Sycamore produced for third-party insurers. The Venture Transaction included the transition of 21 employees from Conifer to Venture as well as necessary systems and office functions to operate the business. Venture did not assume any in-force business or liabilities. The business transitioned to Venture as it produced new or renewal business effective July 1, 2021. Our Insurance Company Subsidiaries continued to underwrite substantially all of the business we sold to Venture that we underwrote prior to the transaction.

Loss Portfolio Transfer

On November 1, 2022, the Company entered into a loss portfolio transfer ("LPT") reinsurance agreement with Fleming Reinsurance Ltd ("Fleming Re"). Under the agreement, Fleming Re will cover an aggregate limit of $66.3 million of paid losses on $40.8 million of stated net reserves as of June 30, 2022, relating to accident years 2019 and prior. This covers substantially all of the commercial liability lines underwritten by the Company. Within the aggregate limit, there is a $5.5 million loss corridor in which the Company retains losses in excess of $40.8 million. Fleming Re is then responsible to cover paid losses in excess of $46.3 million up to $66.3 million. Accordingly, there is $20.0 million of adverse development cover for accident years 2019 and prior. Under the agreement, Fleming Re was paid $40.8 million for stated net reserves as of June 30, 2022, plus a one-time risk fee of $5.4 million. Recoverables due to the Company under this agreement are recorded as reinsurance recoverables. The agreement is between CIC and WPIC and Fleming Re. As of December 31, 2022, the Company has recorded losses through the $5.5 million corridor and $644,000 into the $20.0 million layer.

The Company paid $25.0 million in cash on October 14, 2022, which was netted down for claims paid through September 30, 2022 and $13.6 million of funds withheld. Cash used in the transaction was generated from the existing investment portfolios held by CIC and WPIC.

A.M. Best

On April 21, 2022, A.M. Best downgraded the Company's Long-Term Issuer Credit Rating (Long-Term ICR) from "bb" (Fair) to "bb-" (Fair), and downgraded the Company's insurance subsidiaries Financial Strength Rating from "B++" (Good) to "B+" (Good) and the Long-Term ICR from "bbb" (Good) to "bbb-" (Good). The outlook assigned to all these ratings by A.M. Best was Stable. We do not believe the rating changes will have a material effect on our business.

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 45 states, including the District of Columbia. We are licensed to write insurance as an admitted carrier in 42 states, including the District of Columbia, and we offer our insurance products in all 50 states.

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

Our expenses consist primarily of losses and loss adjustment expenses, agents' commissions, and other underwriting and administrative expenses. We organize our operations in three insurance businesses: commercial insurance lines, personal lines, and agency business. Together, the commercial and personal lines refer to "underwriting" operations that take insurance risk, and the agency business refers to non-risk insurance business.

Through our commercial insurance lines, we offer coverage for both commercial property and 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 homeowners insurance and dwelling fire insurance products to individuals in several states. Our specialty homeowners insurance product line is primarily comprised of low-value dwelling insurance tailored for owners of lower valued homes, which we offer in Illinois, Indiana and Texas.

Through our wholesale agency business segment, we offer commercial and personal lines insurance products for our Insurance Company Subsidiaries as well as third-party insurers. The wholesale agency business segment provides our agents with more insurance product options. However, as a result of the sale of certain agency business on June 30, 2021, going forward, our agency segment will not be producing any significant amounts of business for third party insurers and will produce approximately 50% less business for the Insurance Company Subsidiaries.

Critical Accounting Policies and Estimates

General

We identified the accounting estimates below as critical to the understanding of our financial position and results of operations. Critical accounting estimates are defined as those estimates that are both important to the portrayal of our financial condition and results of operations and which require us to exercise significant judgment. We use significant judgment concerning future results and developments in applying these critical accounting estimates and in preparing our consolidated financial statements. These judgments and estimates affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of material contingent assets and liabilities. Actual results may differ materially from the estimates and assumptions used in preparing the consolidated financial statements. We evaluate our estimates regularly using information that we believe to be relevant. See the Consolidated Financial Statements Note 1 ~ *Summary of Significant Accounting Policies,* for further details.

Unpaid Loss and Loss Adjustment Expense Reserves

Our recorded loss and loss adjustment expenses ("LAE") reserves represent management's best estimate of unpaid loss and LAE at each balance sheet date, based on information, facts and circumstances known at such time. Our loss and LAE reserves reflect our estimates at the balance sheet date of:

- Case reserves, which are unpaid loss and LAE amounts that have been reported; and
- Incurred but not reported ("IBNR") reserves, which are (1) unpaid loss and LAE amounts that have been incurred but not yet reported; and (2) the expected development on case reserves.

We do not discount the loss and LAE reserves for the time value of money.

Case reserves are initially set by our claims personnel. When a claim is reported to us, our claims department completes a case-basis valuation and establishes a case reserve for the estimated amount of the probable ultimate losses and LAE associated with that claim. Our claims department updates their case-basis valuations upon receipt of additional information and reduces case reserves as claims are paid. The case reserve is based primarily upon an evaluation of the following factors:

- The type of loss;
- The severity of injury or damage;
- Our knowledge of the circumstances surrounding the claim;
- The jurisdiction of the occurrence;
- Policy provisions related to the claim;

- Expenses intended to cover the ultimate cost of settling claims, including investigation and defense of lawsuits resulting from such claims, costs of outside adjusters and experts, and all other expenses which are identified to the case; and
- Any other information considered pertinent to estimating the indemnity and expense exposure presented by the claim.

IBNR reserves are determined by subtracting case reserves and paid loss and LAE from the estimated ultimate loss and LAE. Our actuarial department develops estimated ultimate loss and LAE on a quarterly basis. Our Reserve Review Committee (which includes our Chief Executive Officer, President, Chief Financial Officer, other members of executive management, and key actuarial, underwriting and claims personnel) meets each quarter to review our actuaries' estimated ultimate expected loss and LAE.

We use several generally accepted actuarial methods to develop estimated ultimate loss and LAE estimates by line of business and accident year. This process relies on the basic assumption that past experience, adjusted for the effects of current developments and likely trends, is a reasonable basis for predicting future outcomes. These methods utilize various inputs, including:

- Written and earned premiums;
- Paid and reported losses and LAE;
- Expected initial loss and LAE ratio, which is the ratio of incurred losses and LAE to earned premiums; and
- Expected claim reporting and payout patterns based on our own loss experience and supplemented with insurance industry data where applicable.

The principal standard actuarial methods used by our actuaries for their comprehensive reviews include:

- Loss ratio method—This method uses loss and LAE ratios for prior accident years, adjusted for current trends, to determine an appropriate expected loss and LAE ratio for a given accident year;
- Loss development methods—Loss development methods assume that the losses and LAE yet to emerge for an accident year are proportional to the paid or reported loss and LAE amounts observed to-date. The paid loss development method uses losses and LAE paid to date, while the reported loss development method uses losses and LAE reported to date;
- Bornheutter-Ferguson method—This method is a combination of the loss ratio and loss development methods, where the loss development factor is given more weight as an accident year matures; and
- Frequency/severity method—This method projects claim counts and average cost per claim on a paid or reported basis for high frequency, low severity products.

Our actuaries give different weights to each of these methods based upon the amount of historical experience data by line of business and by accident year, and based on judgment as to what method is believed to result in the most accurate estimate. The application of each method by line of business and by accident year may change in the future if it is determined that a different emphasis for each method would result in more accurate estimates.

Our actuaries also analyze several diagnostic measures by line of business and accident year, including but not limited to: reported and closed frequency and severity, claim reporting and claim closing patterns, paid and incurred loss ratio development, and ratios of paid loss and LAE to incurred loss and LAE. After the actuarial methods and diagnostic measures have been performed and analyzed, our actuaries use their judgment and expertise to select an estimated ultimate loss and LAE by line of business and by accident year.

Our actuaries estimate an IBNR reserve for our unallocated LAE not specifically identified to a particular claim, namely our internal claims department salaries and associated general overhead and administrative expenses associated with the adjustment and processing of claims. These estimates, which are referred to as unallocated loss adjustment expense

("ULAE") reserves, are based on internal cost studies and analyses reflecting the relationship of ULAE paid to actual paid and incurred losses. We select factors that are applied to case reserves and IBNR reserve estimates in order to estimate the amount of ULAE reserves applicable to estimated loss reserves at the balance sheet date.

We allocate the applicable portion of our estimated loss and LAE reserves to amounts recoverable from reinsurers under reinsurance contracts and report those amounts separately from our loss and LAE reserves as an asset on our balance sheet.

The estimation of ultimate liability for losses and LAE is a complex, imprecise and inherently uncertain process, and therefore involves a considerable degree of judgment and expertise. Our loss and LAE reserves do not represent an exact measurement of liability, but are estimates based upon various factors, including but not limited to:

- Actuarial projections of what we, at a given time, expect to be the cost of the ultimate settlement and administration of claims reflecting facts and circumstances then known;
- Estimates of future trends in claims severity and frequency;
- Assessment of asserted theories of liability; and
- Analysis of other factors, such as variables in claims handling procedures, economic factors, and judicial and legislative trends and actions.

Most or all of these factors are not directly or precisely quantifiable, particularly on a prospective basis, and are subject to a significant degree of variability over time. In addition, the establishment of loss and LAE reserves makes no provision for the broadening of coverage by legislative action or judicial interpretation or for the extraordinary future emergence of new types of losses not sufficiently represented in our historical experience or which cannot yet be quantified. As a result, an integral component of our loss and LAE reserving process is the use of informed subjective estimates and judgments about our ultimate exposure to losses and LAE. Accordingly, the ultimate liability may vary significantly from the current estimate. The effects of change in the estimated loss and LAE reserves are included in the results of operations in the period in which the estimate is revised.

Our reserves consist entirely of reserves for property and liability losses, consistent with the coverages provided for in the insurance policies directly written or assumed by us under reinsurance contracts. Several years may elapse between the occurrence of an insured loss, the reporting of the loss to us and our payment of the loss. The level of IBNR reserves in relation to total reserves depends upon the characteristics of the specific line of business, particularly related to the speed with which claims are reported and outstanding claims are paid. Lines of business for which claims are reported slowly will have a higher percentage of IBNR reserves than lines of business that report and settle claims more quickly.

The following table shows the ratio of IBNR reserves to total reserves net of reinsurance recoverables as of December 31, 2022 (dollars in thousands):

Line of Business	**Case Reserves**	**IBNR Reserves**	**Total Reserves**	**Ratio of IBNR to Total Reserves**
Commercial Lines	$ 36,354	$ 41,903	$ 78,257	53.5%
Personal Lines	2,944	1,687	4,631	36.4%
Total Lines	$ 39,298	$ 43,590	$ 82,888	52.6%

Included in the reinsurance recoverables were reinsurance recoverables from the LPT which were $24.4 million of reinsurance recoverables on case reserves and $1.5 million of reinsurance recoverables on IBNR. All of the reinsurance recoverables from the LPT are included in commercial lines.

Although we believe that our reserve estimates are reasonable, it is possible that our actual loss and LAE experience may not conform to our assumptions and may, in fact, vary significantly from our assumptions. Accordingly, the ultimate settlement of losses and the related LAE may vary significantly from the estimates included in our financial statements. We continually review our estimates and adjust them as we believe appropriate as our experience develops or new information becomes known to us. Such adjustments are included in current operations.

Our loss and LAE reserves do not represent an exact measurement of liability, but are estimates. The most significant assumptions affecting our IBNR reserve estimates are the loss development factors applied to paid losses and case reserves to develop IBNR by line of business and accident year. Although historical loss development provides us with an indication of future loss development, it typically varies from year to year. Thus, for each accident year within each line of business we select one loss development factor out of a range of historical factors.

We generated a sensitivity analysis of our net reserves which represents reasonably likely levels of variability in our selected loss development factors. We believe the most meaningful approach to the sensitivity analysis is to vary the loss development factors that drive the ultimate loss and LAE estimates. We applied this approach on an accident year basis, reflecting the reasonably likely differences in variability by level of maturity of the underlying loss experience for each accident year. Generally, the most recent accident years are characterized by more unreported losses and less information available for settling claims, and have more inherent uncertainty than the reserve estimates for more mature accident years. Therefore, we used variability factors of plus or minus 10% for the most recent accident year, 5% for the preceding accident year, and 2.5% for the second preceding accident year. There is minimal expected variability for accident years at four or more years' maturity.

The following table displays ultimate net loss and LAE and net loss and LAE reserves by accident year for the year ended December 31, 2022. We applied the sensitivity factors to each accident year amount and have calculated the amount of potential net loss and LAE reserve change and the impact on 2022 reported pre-tax income and on net income and shareholders' equity at December 31, 2022. We believe it is not appropriate to sum the illustrated amounts as it is not reasonably likely that each accident year's reserve estimate assumptions will vary simultaneously in the same direction to the full extent of the sensitivity factor. The shareholders' equity amounts include an income tax rate assumption of 21%, however due to the net operating losses ("NOL") available to use against taxable income and the offsetting valuation allowance, there is no difference between pre-tax income and shareholders' equity in this schedule. The dollar amounts in the table are in thousands.

	As of December 31, 2022			Impact	
	Net Ultimate Loss and LAE (1)	Net Loss and LAE Reserves (1)	Ultimate Loss and LAE Sensitivity Factor	Pre-Tax Income (2)	Shareholders' Equity (2)
Increased Ultimate Losses & LAE					
Accident Year 2022	$ 57,136	$ 36,262	10.0 %	$ (5,714)	$ (4,514)
Accident Year 2021	52,152	22,840	5.0 %	(2,608)	(2,060)
Accident Year 2020	46,128	16,142	2.5 %	(1,153)	(911)
Prior to 2020 Accident Years	—	7,645	— %	—	—
Decreased Ultimate Losses & LAE					
Accident Year 2022	57,136	36,262	(10.0)%	5,714	4,514
Accident Year 2021	52,152	22,840	(5.0)%	2,608	2,060
Accident Year 2020	46,128	16,142	(2.5)%	1,153	911
Prior to 2020 Accident Years	—	7,645	— %	—	—

(1) Represents amounts as of December 31, 2022.
(2) Represents how pre-tax income and shareholders' equity would change if the Net Ultimate Loss and LAE were to change by the percentage in the Ultimate Loss and LAE Sensitivity Factor column.

Investment Valuation and Impairment

We carry debt securities classified as available-for-sale at fair value, and unrealized gains and losses on such securities, net of any deferred taxes, are reported as a separate component of accumulated other comprehensive income. Our equity securities that do not result in consolidation and are not accounted for under the equity method are measured at fair value and any changes in fair value are recognized in net income. We carry other equity investments that do not have a readily determinable fair value at cost, less impairment and adjusted for observable price changes under the measurement alternative provided under GAAP. We review these investments for impairment during each reporting period. We do not have any securities classified as trading or held to maturity.

We evaluate our available-for-sale investments regularly to determine whether there have been declines in value that are other-than-temporary. Our outside investment managers assist us in this evaluation. When we determine that a security has experienced an other-than-temporary impairment, the impairment loss is recognized as a realized investment loss.

We consider a number of factors in assessing whether an impairment is other-than-temporary, including (1) the amount and percentage that current fair value is below cost or amortized cost, (2) the length of time that the fair value has been below cost or amortized cost and (3) recent corporate developments or other factors that may impact an issuer's near term prospects. In addition, for debt securities, we consider the credit quality ratings for the securities, with a special emphasis on securities downgraded to below investment grade. We also consider our intent to sell available-for-sale debt securities in an unrealized loss position, and if it is more likely than not that we will be required to sell these securities before a recovery in fair value to their cost or amortized cost basis.

Fair values are measured in accordance with ASC 820, *Fair Value Measurements*. The guidance establishes a framework for measuring fair value and a three-level hierarchy based upon the quality of inputs used to measure fair value. The three levels of the fair value hierarchy are: (1) Level 1: inputs are based on quoted prices (unadjusted) in active markets for identical assets or liabilities, (2) Level 2: inputs are other than quoted prices that are observable for the asset or liabilities, either directly or indirectly, for substantially the full term of the asset or liability and (3) 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 Company also has investment company limited partnership investments, which are measured at net asset value (NAV). The fair value of these investments is based on the capital account balances reported by the investment funds subject to their management review and adjustment. The capital account balances reflect the fair value of the investment funds.

The fair values of debt and equity securities have been determined using fair value prices provided by our investment managers, who utilize internationally recognized independent pricing services. The prices provided by the independent pricing services are generally based on observable market data in active markets (e.g., broker quotes and prices observed for comparable securities).

The values for publicly-traded equity securities are generally based on Level 1 inputs which use the market approach valuation technique. The values for debt securities generally incorporate significant Level 2 inputs. The carrying value of cash and short-term investments approximate their fair values due to their short-term maturity.

We review fair value prices provided by our outside investment managers for reasonableness by comparing the fair values provided by the managers to those provided by our investment custodian. We also review and monitor changes in unrealized gains and losses. We obtain an understanding of the methods, models and inputs used by our investment managers and independent pricing services, and controls are in place to validate that prices provided represent fair values. Our control process includes initial and ongoing evaluation of the methodologies used, a review of specific securities and an assessment for proper classification within the fair value hierarchy.

Income Taxes

As of December 31, 2022, we have federal and state income tax NOL carryforwards of $65.6 million and $107.2 million, respectively. Of the NOL carryforwards, $50.4 million will expire in tax years 2030 through 2042 and $15.2 million will never expire. Of the federal NOL amount, $7.6 million are subject to limitations under Section 382 of the Internal Revenue Code. These net NOL carryforwards are limited in the amount that can be utilized in any one year and may expire before they are realized. At this time we do not expect that any of the remaining NOL carryforwards will expire before utilized.

A valuation allowance of $21.7 million and $14.6 million has been recorded against the gross deferred tax assets as of December 31, 2022 and 2021, respectively, as the Company has recognized a three-year cumulative loss as of December 31, 2022 which is significant negative evidence to support the lack of recoverability of those deferred tax assets in accordance with ASC 740, *Income Taxes*. If the $21.7 million valuation allowance as of December 31, 2022 were reversed in the future, it would increase book value by $1.77 per share. The net deferred tax assets were zero as of December 31, 2022 and 2021.

If, in the future, we determine we can support the recoverability of a portion or all of the deferred tax assets under the guidance, the tax benefits relating to any reversal of the valuation allowance on deferred tax assets will be accounted for as a reduction of income tax expense and result in an increase in equity. Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and our effective tax rate in the future.

Non-GAAP Financial Measures

Adjusted Operating Income (Loss) and Adjusted Operating Income (Loss) Per Share

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

	For the Years Ended December 31,		
	2022	2021	2020
Net income (loss)	$ (10,681)	$ (1,094)	$ 595
Less:			
Net realized investment gains (losses), net of tax	(1,505)	2,878	8,126
Change in fair value of equity securities, net of tax	403	(2,020)	228
Gain from VSRM Transaction, net of tax	8,810	—	—
Loss portfolio transfer risk fee, net of tax	(5,400)	—	—
Other gains (losses), net of tax	59	11,664	260
Adjusted operating income (loss)	$ (13,048)	$ (13,616)	$ (8,019)
Weighted average common shares, diluted	10,692,090	9,691,998	9,625,059
Diluted income (loss) per common share:			
Net income (loss)	$ (1.00)	$ (0.11)	$ 0.06
Less:			
Net realized investment gains (losses), net of tax	(0.14)	0.30	0.84
Change in fair value of equity securities, net of tax	0.04	(0.21)	0.02
Gain from VSRM Transaction, net of tax	0.82	-	-
Loss portfolio transfer risk fee, net of tax	(0.51)	-	-
Other gains (losses), net of tax	0.01	1.20	0.03
Adjusted operating income (loss) per share	$ (1.22)	$ (1.40)	$ (0.83)

We use adjusted operating income and adjusted operating income per share, in conjunction with other financial measures, 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 effect of investment 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 investment gains and losses may vary significantly between periods and are generally driven by external economic developments, such as capital market conditions. Accordingly, adjusted operating income excludes the effect of items that tend to be highly variable from period to period and highlights the results from our ongoing business operations and the underlying loss or profitability of our business. We believe that it is useful for investors to evaluate adjusted operating income and adjusted operating income per share, along with net income and net income per share, when reviewing and evaluating our performance.

Executive Overview

The Company's gross written premiums increased $5.9 million, or 4.5%, to $138.0 million in 2022, compared to $132.1 million in 2021. This was due to a substantial increase in gross written premiums in our personal lines of business, specifically low-value dwelling. This increase was primarily due to additional exposures and increased rates. Our personal lines gross written premium increased $6.1 million, or 40.8%, to $21.1 million in 2022, compared to $15.0 million in 2021.

The Company reported a net loss of $10.7 million, or $1.00 per share, in 2022, compared to a net loss of $1.1 million, or $0.11 per share, in 2021.

Adjusted operating loss, a non-GAAP measure, was $13.0 million, or $1.22 per share, for the year ended December 31, 2022, compared to an adjusted operating loss of $13.6 million, or $1.40 per share, for the year ended December 31, 2021.

The 2022 results included an $8.8 million non-operating gain in the fourth quarter of 2022 from the step acquisition of VSRM and subsequent sale of its security guard and alarm installation insurance brokerage business to a third party insurance brokerage firm. The Company also recorded a tax benefit of $9.4 million from the utilization of net operating loss tax carryforwards ("NOLs") applied against the taxable gain on the transaction. The deferred tax assets associated with the NOLs had a valuation allowance against it, and thus there was the recognition of the benefit in the period it was used.

The Company entered into a loss portfolio transfer reinsurance agreement on November 1, 2022 with Fleming Re in order to reduce its exposure to future unfavorable development on its reserves. The Company was charged a one-time risk fee of $5.4 million, which was reflected as a non-operating loss. Fleming Re will cover an aggregate limit of $66.3 million of paid losses on $40.8 million of stated net reserves as of June 30, 2022, relating to accident years 2019 and prior. Within the aggregate limit, there is a $5.5 million loss corridor in which the Company retains losses in excess of $40.8 million. Fleming Re is then responsible to cover paid losses in excess of $46.3 million up to $66.3 million. As of December 31, 2022, the Company has recorded losses through the $5.5 million corridor and $644,000 into the $20.0 million layer.

In the fourth quarter of 2022, the Company incurred $2.0 million of losses and $1.6 million reinsurance reinstatement costs related to Hurricane Ian.

The 2021 results included an $8.9 million gain from the June 30, 2021 Venture Transaction, and a $2.8 million gain from the forgiveness of the PPP loan. Both gains are reflected in Other Gains on the Consolidated Statements of Operations. We also saw continued improvement in our current accident year underwriting results as our mix of business and other underwriting changes helped to produce a 2021 accident year combined ratio of 93.3%. These positive results were offset by $19.4 million of adverse development from prior accident years.

The Company experienced $2.0 million of catastrophe losses, net of reinsurance recoverables, during 2021 from Winter Storm Uri. The Company had $86,000 of reinsurance reinstatement costs relating to Hurricane Irma in 2021.

Results of Operations - 2022 Compared to 2021

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

Summary Operating Results

	Years Ended December 31, 2022	Years Ended December 31, 2021	$ Change	% Change
Gross written premiums	$ 138,019	$ 132,095	$ 5,924	4.5 %
Net written premiums	$ 91,232	$ 101,429	$ (10,197)	(10.1 %)
Net earned premiums	$ 96,711	$ 98,802	$ (2,091)	(2.1 %)
Other income	2,768	2,671	97	3.6 %
Losses and loss adjustment expenses, net	81,440	69,861	11,579	16.6 %
Policy acquisition costs	22,179	28,451	(6,272)	(22.0 %)
Operating expenses	18,789	16,509	2,280	13.8 %
Loss portfolio transfer risk fee	5,400	—	5,400	*
Underwriting gain (loss)	(28,329)	(13,348)	(14,981)	(112.2 %)
Net investment income	3,043	1,968	1,075	54.6 %
Net realized investment gains (losses)	(1,505)	2,878	(4,383)	*
Change in fair value of equity securities	403	(2,020)	2,423	*
Gain from VSRM Transaction	8,810	—	8,810	*
Other gains (losses)	59	11,664	(11,605)	*
Interest expense	2,971	2,852	119	4.2 %
Income (loss) before income taxes	(20,490)	(1,710)	(18,780)	*
Equity earnings in Affiliate, net of tax	368	824	(456)	(55.3 %)
Income tax expense	(9,441)	208	(9,649)	*
Net income (loss)	$ (10,681)	$ (1,094)	$ (9,587)	*
Underwriting Ratios:				
Loss ratio (1)	83.9 %	70.5 %		
Expense ratio (2)	38.4 %	42.4 %		
Combined ratio (3)	122.3 %	112.9 %		

(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 from underwriting operations.

(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 from underwriting operations.

(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

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

Our premiums are presented below for the years ended December 31, 2022 and 2021 (dollars in thousands):

Summary of Premium Revenue

	Years Ended December 31, 2022	Years Ended December 31, 2021	$ Change	% Change
Gross written premiums				
Commercial lines	$ 116,868	$ 117,075	$ (207)	(0.2%)
Personal lines	21,151	15,020	6,131	40.8%
Total	$ 138,019	$ 132,095	$ 5,924	4.5%
Net written premiums				
Commercial lines	$ 72,318	$ 87,307	$ (14,989)	(17.2%)
Personal lines	18,914	14,122	4,792	33.9%
Total	$ 91,232	$ 101,429	$ (10,197)	(10.1%)
Net Earned premiums				
Commercial lines	$ 80,823	$ 87,759	$ (6,936)	(7.9%)
Personal lines	15,888	11,043	4,845	43.9%
Total	$ 96,711	$ 98,802	$ (2,091)	(2.1%)

Gross written premiums increased by $5.9 million, or 4.5%, to $138.0 million, for the year ended December 31, 2022, compared to $132.1 million for the year ended December 31, 2021. The increase was attributable to an increase in written premium in our small business and low-value dwelling programs, which was offset by a decrease in written premium in our hospitality programs. Increases in the personal lines business was primarily attributable to an increase in policies, but also due to increases in rates.

Commercial lines gross written premiums decreased $207,000, or 0.2%, to $116.9 million, for the year ended December 31, 2022, compared to $117.1 million for the year ended December 31, 2021. Gross written premiums for our small business programs increased by $4.5 million, or 5.3%, to $89.9 million, for the year ended December 31, 2022, compared to $85.4 million for the year ended December 31, 2021. This increase was offset by our hospitality programs gross written premiums, which decreased by $4.7 million, or 14.9%, to $27.0 million, for the year ended December 31, 2022, compared to $31.7 million for the year ended December 31, 2021.

Personal lines gross written premiums increased $6.1 million, or 40.8%, to $21.1 million, for the year ended December 31, 2022, compared to $15.0 million for the year ended December 31, 2021. This increase was largely driven by our low-value dwelling business.

Net written premiums decreased $10.2 million, or 10.1%, to $91.2 million, for the year ended December 31, 2022, compared to $101.4 million for the year ended December 31, 2021. The Company entered into new specific loss reinsurance treaties on December 31, 2021 and January 1, 2022, which included a 40% ceding commission. This increased ceded written premiums by approximately $11.4 million in 2022. There was no ceding commission on excess of loss treaties during 2021. Ceded earned premiums also increased due to the new treaties by $8.9 million. The increase in ceded earned premiums was offset by the same increase in ceding commissions, which reduced acquisition costs.

Other Income

Other income consists primarily of fees charged to policyholders by the Company for services outside of the premium charge, such as installment billings and policy issuance costs. Other income also includes the interest income from the $6.0 million and $3.0 million promissory notes relating to the Venture Transaction. The $3.0 million promissory note was paid down by Venture on December 14, 2021, and $5.0 million of the $6.0 million promissory note was paid down by Venture on October 20, 2022. Commission income is also received by the Company's insurance agency for writing policies for third-party insurance companies. All of the third-party business was sold to Venture at June 30, 2021. Accordingly, other income from that business diminished in 2022 as that business transitioned to Venture.

Other income increased by $97,000, or 3.6%, to $2.8 million for the year ended December 31, 2022, compared to $2.7 million for the year ended December 31, 2021. Other income relating to installment billings and policy issuance costs was lower in 2022 because of the Venture Transaction. This was offset by the interest income received from the $6.0 million promissory note during 2022.

Losses and Loss Adjustment Expenses

The tables below detail our losses and LAE and loss ratios for the years ended December 31, 2022 and 2021 (dollars in thousands).

Year Ended December 31, 2022	Commercial Lines	Personal Lines	Total
Accident year net losses and LAE	$ 46,884	$ 10,272	$ 57,156
Net (favorable) adverse development	23,878	406	24,284
Calendar year net loss and LAE	$ 70,762	$ 10,678	$ 81,440
Accident year loss ratio	57.9 %	64.3 %	58.9 %
Net (favorable) adverse development	29.4 %	2.6 %	25.0 %
Calendar year loss ratio	87.3 %	66.9 %	83.9 %

Year Ended December 31, 2021	Commercial Lines	Personal Lines	Total
Accident year net losses and LAE	$ 45,393	$ 5,036	$ 50,429
Net (favorable) adverse development	18,475	957	19,432
Calendar year net loss and LAE	$ 63,868	$ 5,993	$ 69,861
Accident year loss ratio	51.6 %	45.0 %	50.9 %
Net (favorable) adverse development	21.0 %	8.6 %	19.6 %
Calendar year loss ratio	72.6 %	53.6 %	70.5 %

Net losses and LAE increased by $11.5 million, or 16.6%, to $81.4 million for the year ended December 31, 2022, compared to $69.9 million for the year ended December 31, 2021. The calendar year loss ratios were 83.9% and 70.5% for the years ended December 31, 2022 and 2021, respectively.

The Company experienced $24.3 million of adverse development for the year ended December 31, 2022. Of the $24.3 million of adverse development, $23.9 million was related to the Company's commercial lines of business, while $406,000 was related to the Company's personal lines of business. Of the $24.3 million of adverse development, $1.8 million was related to the 2021 accident year, $4.0 million was related to the 2020 accident year, $9.6 million was related to the 2019 accident year, $5.2 million was related to the 2018 accident year, and $3.7 million was related to 2017 and prior accident years. The adverse development was mostly related to the Company's commercial liability lines and was driven by multiple factors including significant social inflation generating higher severity than historical experience, and longer tail exposure than anticipated, particularly in certain jurisdictions.

The $19.4 million of adverse development in 2021 consisted of $18.5 million from commercial lines and $957,000 from personal lines and mostly related to the 2019 and prior accident years.

Expense Ratio

Our expense ratio is a measure of the efficiency and performance of the commercial and personal lines of business (our risk-bearing underwriting operations). It is calculated by dividing the sum of policy acquisition costs and other underwriting expenses by the sum of net earned premiums and other income of the underwriting business. Costs that cannot be readily identifiable as a direct cost of a segment or product line remain in Corporate for segment reporting purposes. The expense ratio excludes wholesale agency and Corporate expenses.

The table below provides the expense ratio by major component:

	Years Ended December 31,	
	2022	2021
Commercial Lines		
Policy acquisition costs	21.8 %	29.2 %
Operating expenses	16.1 %	13.2 %
Total	37.9 %	42.4 %
Personal Lines		
Policy acquisition costs	28.8 %	29.6 %
Operating expenses	12.2 %	12.1 %
Total	41.0 %	41.7 %
Total Underwriting		
Policy acquisition costs	23.0 %	29.3 %
Operating expenses	15.4 %	13.1 %
Total	38.4 %	42.4 %

Our expense ratio decreased by 4.0% to 38.4% for the year ended December 31, 2022, as compared to the same period in 2021. The decrease was largely due to a reduction in policy acquisition costs attributable to $11.4 million of ceding commission from new excess of loss reinsurance treaties. There were no commissions on excess of loss treaties in 2021.

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. The percentage of policy acquisition costs to net earned premiums and other income decreased by 6.3%, from 29.3% in 2021, to 23.0% in 2022, mostly due to the new ceding commission mentioned above.

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 increased by 2.3%, from 13.1% in 2021, to 15.4% in 2022. The new excess of loss reinsurance treaties with the ceding commission drove net earned premiums lower, resulting in a slightly higher operating expense ratio.

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 years ended December 31, 2022 and 2021 (dollars in thousands):

Underwriting Gain (Loss)

	Years Ended December 31,		
	2022	2021	Change
Commercial Lines	$ (25,845)	$ (13,229)	$ (12,616)
Personal Lines	(1,248)	529	(1,777)
Total Underwriting	(27,093)	(12,700)	(14,393)
Wholesale Agency	(554)	(261)	(293)
Corporate	(921)	(757)	(164)
Eliminations	239	370	(131)
Total underwriting income (loss)	$ (28,329)	$ (13,348)	$ (14,981)

Investment Income

Net investment income increased by $1.0 million, or 54.6%, to $3.0 million for the year ended December 31, 2022, compared to $2.0 million for the year ended December 31, 2021. This increase was due to an increase in interest income in our debt securities due to higher interest rates in 2022. Average invested assets during 2022 were $160.1 million compared to $183.0 million for the same period in 2021. The investment portfolio was comprised of 81.2% debt securities, 3.5% equity securities, and 15.3% short-term investments as of December 31, 2022. The investment portfolio was comprised of 82.5% debt securities, 7.6% equity securities, and 9.9% short-term investments as of December 31, 2021.

The debt securities portfolio had an average credit quality was AA+ and AA at December 31, 2022 and 2021, respectively. The portfolio produced a tax-equivalent book yield of 2.3% and 1.4% for the years ended December 31, 2022 and 2021, respectively. The option adjusted duration of the debt securities portfolio was 3.5 years and 3.6 years at December 31, 2022 and 2021, respectively.

Realized Investment Gains (Losses)

Net realized investment losses were $1.5 million during 2022, compared to $2.9 million of investment gains in 2021. The $4.4 million decrease was due to the Company repositioning its equity portfolio as well as negative overall market conditions that were experienced during 2022.

Interest Expense

Interest expense was $2.9 million for the years ended December 31, 2022 and 2021. We issued $25.3 million of public senior unsecured notes (the "Notes") in 2018. The Company did not repurchase any of the Notes in 2022 and 2021. Interest expense includes the amortization of debt issuance costs relating to the Notes which is $260,000 per annum over the 5-year life of the Notes. The interest expense relating to the amortization of debt issuance costs for the existing $10.5 million of the Subordinated Notes is $51,000 per annum over the 20-year life of the Subordinated Notes.

The Company had a $10.0 million line of credit during 2022 and 2021, which it drew upon and paid down at various times. This contributed to the interest expense in 2022 and 2021. The Company had no outstanding balance on its line of credit on December 31, 2022, as the line of credit agreement matured on December 1, 2022. The line of credit agreement was not renewed with the Lender after it matured on December 1, 2022.

Income Tax Expense

For the year ended December 31, 2022, the Company reported $6,000 of current federal income tax expense and $39,000 of current state income tax expense. The Company reported a deferred tax benefit of $9.4 million and $0 for the years ended December 31, 2022 and 2021, respectively.

There is a $21.7 million valuation allowance against 100% of the net deferred tax assets at December 31, 2022, which would increase book value by $1.77 per share if reversed in the future. The valuation allowance was $14.6 million as of December 31, 2021. As of December 31, 2022, the Company has net operating loss carryforwards for federal income tax purposes of $65.6 million, of which $50.4 million expire in tax years 2030 through 2042 and $15.2 million never expire. Of this amount, $7.6 million are limited in the amount that can be utilized in any one year and may expire before they are realized under Section 382 of the Internal Revenue Code. The Company has state net operating loss carryforwards of $107.2 million, which expire in tax years 2023 through 2042.

Results of Operations - 2021 Compared to 2020

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

Summary Operating Results

	Years Ended December 31, 2021	Years Ended December 31, 2020	$ Change	% Change
Gross written premiums	$ 132,095	$ 111,335	$ 20,760	18.6%
Net written premiums	$ 101,429	$ 92,940	$ 8,489	9.1%
Net earned premiums	$ 98,802	$ 89,103	$ 9,699	10.9%
Other income	2,671	2,615	56	2.1%
Losses and loss adjustment expenses, net	69,861	56,228	13,633	24.2%
Policy acquisition costs	28,451	26,105	2,346	9.0%
Operating expenses	16,509	18,468	(1,959)	(10.6%)
Underwriting gain (loss)	(13,348)	(9,083)	(4,265)	(47.0%)
Net investment income	1,968	3,156	(1,188)	(37.6%)
Net realized investment gains	2,878	8,126	(5,248)	(64.6%)
Change in fair value of equity securities	(2,020)	228	(2,248)	*
Other gains (losses)	11,664	260	11,404	*
Interest expense	2,852	2,925	(73)	(2.5%)
Income (loss) before income taxes	(1,710)	(238)	(1,472)	*
Equity earnings (losses) in Affiliate, net of tax	824	839	(15)	(1.8%)
Income tax expense (benefit)	208	6	202	*
Net income (loss)	$ (1,094)	$ 595	$ (1,689)	*
Underwriting Ratios:				
Loss ratio (1)	70.5%	62.8%		
Expense ratio (2)	42.4%	45.6%		
Combined ratio (3)	112.9%	108.4%		

(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 from underwriting operations.

(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 from underwriting operations.

(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

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

Our premiums are presented below for the years ended December 31, 2021 and 2020 (dollars in thousands):

Summary of Premium Revenue

	Years Ended December 31, 2021	Years Ended December 31, 2020	$ Change	% Change
Gross written premiums				
Commercial lines	$ 117,075	$ 102,763	$ 14,312	13.9%
Personal lines	15,020	8,572	6,448	75.2%
Total	$ 132,095	$ 111,335	$ 20,760	18.6%
Net written premiums				
Commercial lines	$ 87,307	$ 85,385	$ 1,922	2.3%
Personal lines	14,122	7,555	6,567	86.9%
Total	$ 101,429	$ 92,940	$ 8,489	9.1%
Net Earned premiums				
Commercial lines	$ 87,759	$ 82,409	$ 5,350	6.5%
Personal lines	11,043	6,694	4,349	65.0%
Total	$ 98,802	$ 89,103	$ 9,699	10.9%

Gross written premiums increased by $20.8 million, or 18.6%, to $132.1 million for the year ended December 31, 2021, compared to $111.3 million for the year ended December 31, 2020. The increase was attributable to an increase in written premium in our small business and low-value dwelling programs, which was slightly offset by a decrease in written premium in our hospitality programs.

Commercial lines gross written premiums increased $14.3 million, or 13.9%, to $117.1 million, for the year ended December 31, 2021, compared to $102.8 million for the year ended December 31, 2020. Gross written premiums for our small business programs increased by $20.3 million, or 31.1%, to $85.4 million for the year ended December 31, 2021, compared to $65.1 million for the year ended December 31, 2020. This increase was offset by our hospitality programs gross written premiums, which decreased by $5.9 million, or 15.8%, to $31.7 million for the year ended December 31, 2021, compared to $37.7 million for the year ended December 31, 2020.

Personal lines gross written premiums increased $6.4 million, or 75.2%, to $15.0 million for the year ended December 31, 2021, compared to $8.6 million for the same period in 2020. This increase was largely driven by our low-value dwelling business.

Net written premiums increased $8.5 million, or 9.1%, to $101.4 million, for the year ended December 31, 2021, compared to $92.9 million, for the year ended December 31, 2020. The increase was due to the increase in gross written premium during 2021. However, this increase was reduced by increased reinsurance rates, and the Company entering into a new specific loss commercial liability treaty on December 31, 2021, that included a 40% ceding commission and resulted in an additional $4.4 million of ceded written premiums at the inception of the agreement. Ceding commissions increased by $1.8 million as well. Ceded earned premiums and total acquisition costs were not impacted in 2021 from this new treaty, after taking into account the change in deferred acquisition costs. However, going forward, we would expect to see higher ceded earned premiums and lower acquisition costs as a result of this treaty.

Other Income

Other income consists primarily of fees charged to policyholders by the Company for services outside of the premium charge, such as installment billings and policy issuance costs. Other income also includes the interest income from the $6.0 million and $3.0 million promissory notes relating to the Venture Transaction. The $3.0 million promissory note was paid down by Venture on December 14, 2021. Commission income is also received by the Company's insurance agency for writing policies for third-party insurance companies. All of the third-party business was sold to Venture at June 30, 2021. Accordingly, other income from that business will diminish over the next few quarters as it transitions over to Venture, and will ultimately no longer occur. Other income increased by $56,000, or 2.1%, to $2.7 million for the year ended December 31, 2021, compared to $2.6 million in 2020. Other income relating to installment billings and policy issuance costs was lower in the second half of 2021, as the business that was sold to Venture at June 30, 2021, no longer produces other income for the Company. This was more than offset by an increase in the interest income in 2021 of $306,000 from the notes payable.

Losses and Loss Adjustment Expenses

The tables below detail our losses and LAE and loss ratios for the years ended December 31, 2021 and 2020 (dollars in thousands).

Year Ended December 31, 2021	Commercial Lines	Personal Lines	Total
Accident year net losses and LAE	$ 45,393	$ 5,036	$ 50,429
Net (favorable) adverse development	18,475	957	19,432
Calendar year net loss and LAE	$ 63,868	$ 5,993	$ 69,861
Accident year loss ratio	51.6%	45.0%	50.9%
Net (favorable) adverse development	21.0%	8.6%	19.6%
Calendar year loss ratio	72.6%	53.6%	70.5%

Year Ended December 31, 2020	Commercial Lines	Personal Lines	Total
Accident year net losses and LAE	$ 38,021	$ 2,613	$ 40,634
Net (favorable) adverse development	15,242	352	15,594
Calendar year net loss and LAE	$ 53,256	$ 2,965	$ 56,228
Accident year loss ratio	46.0%	38.2%	45.4%
Net (favorable) adverse development	18.4%	5.1%	17.4%
Calendar year loss ratio	64.4%	43.3%	62.8%

Net losses and LAE increased by $13.6 million, or 24.2% to $69.9 million for the year ended December 31, 2021, compared to $56.2 million in 2020. The calendar year loss ratios were 70.5% and 62.8% for the years ended December 31, 2021 and 2020, respectively.

The $19.4 million of adverse development in 2021 consisted of $18.5 million from commercial lines and $957,000 from personal lines and mostly related to the 2019 and prior accident years.

The $15.6 million of adverse development in 2020 consisted of $15.2 million from commercial lines and $352,000 from personal lines and mostly related to the 2018 and 2017 accident years.

Expense Ratio

Our expense ratio is a measure of the efficiency and performance of the commercial and personal lines of business (our risk-bearing underwriting operations). It is calculated by dividing the sum of policy acquisition costs and other underwriting expenses by the sum of net earned premiums and other income of the underwriting business. Costs that cannot be readily identifiable as a direct cost of a segment or product line remain in Corporate for segment reporting purposes. The expense ratio excludes wholesale agency and Corporate expenses.

The table below provides the expense ratio by major component:

	Years Ended December 31, 2021	2020
Commercial Lines		
Policy acquisition costs	29.2%	30.3%
Operating expenses	13.2%	15.3%
Total	42.4%	45.6%
Personal Lines		
Policy acquisition costs	29.6%	29.9%
Operating expenses	12.1%	15.6%
Total	41.7%	45.5%
Total Underwriting		
Policy acquisition costs	29.3%	30.3%
Operating expenses	13.1%	15.3%
Total	42.4%	45.6%

Our expense ratio decreased by 3.2%, to 42.4% for the year ended December 31, 2021, as compared to the same period in 2020.

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. The percentage of policy acquisition costs to net earned premiums and other income decreased by 1.0%, from 30.3% in 2020, to 29.3% in 2021.

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 13.1% and 15.3% for the years ended December 31, 2021 and 2020, respectively. The lower operating expense ratio was largely due to the Venture Transaction, where 21 employees transitioned from Conifer to Venture on June 30, 2021.

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 years ended December 31, 2021 and 2020 (dollars in thousands):

Underwriting Gain (Loss)

	Years Ended December 31, 2021	2020	Change
Commercial Lines	$ (13,229)	$ (8,307)	$ (4,922)
Personal Lines	529	766	(237)
Total Underwriting	(12,700)	(7,541)	(5,159)
Wholesale Agency	(261)	(474)	213
Corporate	(757)	(1,403)	646
Eliminations	370	335	35
Total underwriting income (loss)	$ (13,348)	$ (9,083)	$ (4,265)

Investment Income

Net investment income decreased by \$1.2 million, or 37.6%, to \$2.0 million for the year ended December 31, 2021, compared to \$3.1 million for the year ended December 31, 2020. This decrease was due to a decrease in interest income in our debt securities due to lower interest rates. Average invested assets during 2021 were \$183.0 million compared to \$176.5 million for the same period in 2020. The investment portfolio was comprised of 82.5% debt securities, 7.6% equity securities, and 9.9% short-term investments as of December 31, 2021. The investment portfolio was comprised of 80.2% debt securities, 7.1% equity securities and 12.7% short-term investments as of December 31, 2020.

The debt securities portfolio had an average quality was AA and AA+ at December 31, 2021 and 2020, respectively. The portfolio produced a tax-equivalent book yield of 1.4% and 1.6% for the years ended December 31, 2021 and 2020, respectively. The option adjusted duration of the debt securities portfolio was 3.6 years at December 31, 2021 and 2020, respectively.

Realized Investment Gains

Net realized investment gains decreased by \$5.3 million, or 64.6%, to \$2.9 million for the year ended December 31, 2021, as compared to \$8.1 million for the year ended December 31, 2020. The decrease was due to overall market conditions in 2021 that reduced the Company's ability to sell portions of its debt and equity securities for realized gains.

Interest Expense

Interest expense was \$2.9 million for the years ended December 31, 2021 and 2020. We issued \$25.3 million of public senior unsecured notes (the "Notes") in 2018. Proceeds from the Notes were used to pay down \$19.5 million of the \$30.0 million of subordinated notes that were issued in the third quarter of 2017. The Company did not repurchase any of the Notes in 2021. The Company repurchased 36,761 units of the Notes in the public market in 2020. Interest expense includes the amortization of debt issuance costs relating to the Notes which is \$260,000 per annum over the 5-year life of the Notes. The interest expense relating to the amortization of debt issuance costs for the existing \$10.5 million of the Subordinated Notes is \$51,000 per annum over the 20-year life of the Subordinated Notes.

The Company has a \$10.0 million line of credit, which it drew upon and paid down at various times throughout 2021, and which contributed to interest expense. The Company had no outstanding balance on its line of credit as of December 31, 2021.

Income Tax Expense

For the year ended December 31, 2021, the Company reported \$5,000 of current federal income tax expense and \$203,000 of current state income tax expense. The Company reported a deferred tax benefit of \$0 for the years ended December 31, 2021 and 2020, respectively.

There is a \$14.6 million valuation allowance against 100% of the net deferred tax assets at December 31, 2021, which would increase book value by \$1.50 per share if reversed in the future. The valuation allowance was \$13.3 million as of December 31, 2020. As of December 31, 2021, the Company has net operating loss carryforwards for federal income tax purposes of \$59.7 million, of which \$49.8 million expire in tax years 2028 through 2041 and \$9.9 million never expire. Of this amount, \$12.8 million are limited in the amount that can be utilized in any one year and may expire before they are realized under Section 382 of the Internal Revenue Code. The Company has state net operating loss carryforwards of \$17.0 million, which expire in tax years 2022 through 2041.

Liquidity and Capital Resources

Sources and Uses of Funds

At December 31, 2022, we had $54.0 million in cash, cash equivalents, and short-term investments. Our principal sources of funds are insurance premiums, investment income, proceeds from maturity and sale of invested assets and other income. These funds are primarily used to pay claims, commissions, employee compensation, taxes and other operating expenses, and service debt.

Management plans to issue new public debt or sell assets that will provide sufficient cash flow to pay off the senior unsecured notes that are coming due within the next twelve months. We believe it is probable that we will be able to issue new public debt or sell assets and repay the senior unsecured notes by September 30, 2023. We believe that our existing cash, cash equivalents, short-term investments and investment securities balances will be adequate to meet our operating liquidity needs and the needs of our subsidiaries on a short-term and long-term basis. With the expected execution of the senior debt refinancing, we believe we can meet our capital needs as well over the next twelve months.

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

We conduct our business operations primarily through our Insurance Company Subsidiaries. Our ability to service debt, and pay administrative expenses is primarily reliant upon our intercompany service fees paid by the Insurance Company Subsidiaries to the holding company for management, administrative, and information technology services provided to the Insurance Company Subsidiaries by the Parent Company. Secondarily, the Parent 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 Parent 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. No dividends were paid from our Insurance Company Subsidiaries in 2022, 2021 or 2020.

We contributed $6.8 million, $11.4 million and $1.2 million to our Insurance Company Subsidiaries in 2022, 2021 and 2020, respectively. We believe that the current statutory surplus levels and the funds available at the holding company level will provide the necessary statutory capital to support our premium volume growth over the next twelve months.

We are aware that our outstanding debt securities are currently trading at a discount to their face amount. In order to reduce future cash interest payments, as well as future amounts due at maturity or upon redemption, we may, from time to time, purchase such debt for cash, in exchange for common stock, or for a combination of cash and common stock, in open market or privately negotiated transactions. We will evaluate any such transactions in light of then-existing market conditions, taking into account our current liquidity and prospects for future access to capital. The amounts involved in such transactions, individually or in the aggregate, may be material.

Cash Flows

Operating Activities. Cash used by operating activities for the year ended December 31, 2022 was $40.5 million compared to cash provided by operating activities of $5.4 million for the same period in 2021. The $45.9 million decrease was primarily due to a $45.2 million increase in paid losses and $8.0 million decrease in premiums collected, net of reinsurance premiums. This decrease was offset by a $6.9 million decrease in the amount of acquisition costs paid during 2022 compared to 2021.

Cash provided by operating activities for the year ended December 31, 2021 was $5.4 million, compared to $3.0 million for the same period in 2020. The $2.4 million increase was primarily due to a $12.4 million increase in premiums collected, net of reinsurance premiums. This increase was offset by a $6.6 million increase in paid claims, a $2.7 million increase in acquisition costs paid, and a $1.4 million decrease in investment income received.

Investing Activities. Cash provided by investing activities for the year ended December 31, 2022 was $56.5 million compared to $1.4 million in 2021. The $55.1 million increase in cash provided by investing activities over the prior year was driven by $34.3 million increase in net proceeds from sale of investments in 2022, compared to the same period in 2021. The Company also experienced an increase of $32.8 million from its sale of agency business in 2022, compared to the same period in 2021.

Cash provided by investing activities for the year ended December 31, 2021 was $1.4 million. Cash used in investing activities was $7.3 million in 2020. The $8.7 million increase in cash provided by investing activities over the prior year was driven by a reduction in the purchases of investments in 2021, compared to the same period in 2020. There was a significant repositioning of the Company's portfolio during the year ended 2020 from the COVID-19 pandemic, which caused an increase in the purchase of investments.

Financing Activities. Cash provided by financing activities for the years ended December 31, 2022, was $2.1 million compared to $5.0 million of cash used by financing activities for years ended December 31, 2021. The $7.1 million increase was largely attributed to the Company raising $5.0 million through the issuance of additional common stock in August 2022.

Cash used by financing activities for the years ended December 31, 2021, was $5.0 million compared to $5.1 million of cash provided by financing activities for years ended December 31, 2020. The $10.1 million decrease in cash provided by financing activities was mostly due to the Company paying down $8.0 million on its line of credit during 2021. The Company's borrowings under debt arrangements were also $2.7 million less in 2021 compared to 2020.

Outstanding Debt

On April 24, 2020, the Company received a $2.7 million PPP loan from the line of credit Lender pursuant to the Paycheck Protection Program of the CARES Act administered by the SBA. The Company received notice from the SBA that the loan was 100% forgiven, including accrued interest, on July 8, 2021. This resulted in a $2.8 million gain that is included in Other Gains on the Consolidated Statement of Operations.

In 2018, the Company issued $25.3 million of Notes. The Notes bear an interest rate of 6.75% annum, payable quarterly at the end of March, June, September and December and mature on September 30, 2023. Proceeds from the Notes were used to pay down $19.5 million of the $30.0 million of subordinated notes that were issued in the third quarter of 2017. The Company did not repurchase any of the Notes during 2022 and 2021. The Company repurchased 36,761 units of the Notes in the public market during 2020 with a face value of $919,000. The Notes were repurchased at a discount to face value, which resulted in a $260,000 gain on extinguishment in 2020. This gain is reflected in the Consolidated Statement of Operations as Other gains.

The Company also has outstanding $10.5 million of Subordinated Notes maturing on September 30, 2038. The Subordinated Notes bear an interest rate of 7.5% per annum until September 30, 2023, and 12.5% thereafter, and allow for four quarterly interest payment deferrals. Interest is payable quarterly at the end of March, June, September and December. Beginning September 30, 2021, the Company may redeem the Subordinated Notes, in whole or in part, for a call premium of $1.1 million. The call premium escalates each quarter to ultimately $1.75 million on September 30, 2023, then steps up to $3.05 million on December 31, 2023, and increases quarterly at a 12.5% per annum rate thereafter.

The carrying value of the Notes and Subordinated Notes are offset by $1.0 million of debt issuance costs that will be amortized through interest expense over the life of the loans. Refer to Note 9 ~ *Debt* of the Notes to the Consolidated Financial Statements, for additional information regarding our outstanding debt.

The Company maintained a $10.0 million line of credit with a national bank (the "Lender") that matured on December 1, 2022. The line of credit was not renewed after it matured. The line of credit contained interest at the London Interbank rate ("LIBOR") plus 2.75% per annum, payable monthly.

Contractual Obligations and Commitments

The following table is a summary of our contractual obligations and commitments as of December 31, 2022 (dollars in thousands):

	Payments due by period				
	Total	Less than one year	One to three years	Three to five years	More than five years
Senior unsecured notes	$ 24,381	$ 24,381	$ —	$ —	$ —
Interest on senior unsecured notes	1,234	1,234	—	—	—
Subordinated notes	10,500	—	—	—	10,500
Interest on subordinated notes	20,606	919	2,625	2,625	14,437
Lease obligations	1,634	328	505	432	369
Unpaid loss and loss adjustment expense (1)	165,539	59,010	66,646	28,890	10,993
Purchase Obligations (2)	1,380	360	720	300	—
Total	$ 225,274	$ 86,232	$ 70,496	$ 32,247	$ 36,299

(1) The estimated unpaid loss and loss adjustment expense payments were made using estimates based on historical payment patterns. However, future payments may be different than historical payment patterns.

(2) Includes estimated future payments under the software license agreement relating to our policy issuance system. This agreement requires minimum monthly payments of $30,000, and is variable with premium volume. The future payment assumptions are based on the minimum monthly payments. The software license agreement expires on November 1, 2026.

Regulatory and Rating Issues

The NAIC has a RBC formula to be applied to all property and casualty insurance companies. The formula measures required capital and surplus based on an insurance company's products and investment portfolio and is used as a tool to evaluate the capital adequacy of regulated companies. The RBC formula is used by state insurance regulators to monitor trends in statutory capital and surplus for the purpose of initiating regulatory action. In general, an insurance company must submit a calculation of its RBC formula to the insurance department of its state of domicile as of the end of the previous calendar year. These laws require increasing degrees of regulatory oversight and intervention as an insurance company's RBC declines.

At December 31, 2022, all of our Insurance Company Subsidiaries were in excess of any minimum threshold at which corrective action would be required.

Insurance operations are subject to various leverage tests (e.g., premium-to-statutory surplus ratios), which are evaluated by regulators and rating agencies. As of December 31, 2022, on a trailing twelve-month statutory combined basis, the gross written and net written premium leverage ratios were 2.3 to 1.0 and 1.5 to 1.0, respectively.

The NAIC's IRIS was developed to assist state insurance departments in executing their statutory mandates to oversee the financial condition of insurance companies operating in their respective states. IRIS identifies thirteen industry ratios and specifies "usual values" for each ratio. State insurance regulators review the IRIS ratio results to determine if an insurer is in need of further regulatory scrutiny or action. While the ratios, individually and collectively, are useful tools for identifying companies that may be experiencing financial difficulty, they are only a guide for regulators and should not be considered an absolute indicator of a Company's financial condition. While inquiries from regulators are not uncommon, our Insurance Company Subsidiaries have not experienced any regulatory actions due to their IRIS ratio results or otherwise.

Recently Issued Accounting Pronouncements

Refer to Note 1 ~ *Summary of Significant Accounting Policies: Recently Issued Accounting Guidance* of the Notes to the Consolidated Financial Statements for detailed information.

ITEM 7A. 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, 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 risk exposures and how those exposures are currently managed as of December 31, 2022. Our market risk sensitive instruments are primarily related to fixed income securities, which are available-for-sale and not held for trading purposes.

Interest Rate Risk

At December 31, 2022 and 2021, the fair value of our investment portfolio, excluding cash and cash equivalents, was $137.4 million and $182.7 million, respectively. Our investment portfolio consists principally of investment-grade, fixed-income securities, classified as debt securities. Accordingly, the primary market risk exposure to our debt portfolio 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 option adjusted duration of the debt securities portfolio was 3.5 and 3.6 years as of December 31, 2022 and 2021, respectively.

The table below summarizes our interest rate risk. The table also illustrates the sensitivity of the fair value of our investments, classified as debt securities and short-term investments, to selected hypothetical changes in interest rates as of December 31, 2022. 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 Percentage Increase (Decrease) in	
Hypothetical Change in Interest Rates As of December 31, 2022	**Estimated Fair Value**	**Estimated Change in Fair Value**	**Fair Value**	**Shareholders' Equity**
200 basis point increase	127,404	$ (8,726)	(6.4)%	(46.0)%
100 basis point increase	131,597	(4,533)	(3.3)%	(23.9)%
No change	136,130	—	—	—
100 basis point decrease	141,044	4,914	3.6%	25.9%
200 basis point decrease	146,299	10,169	7.5%	53.7%

Credit Risk

An additional exposure to our debt securities portfolio is credit risk. We manage our credit risk by investing primarily 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 or issuer.

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 December 31, 2022 and 2021, the net amount due to the Company from reinsurers, including prepaid reinsurance, was $105.7 million and $50.0 million, respectively. 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Refer to list of Financial Statement Schedules (including the Report of Independent Registered Public Accounting Firm referenced therein) set forth in Item 15 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

(a) Dismissal of Independent Registered Public Accounting Firm.

On June 1, 2022, the Audit Committee of the Board of Directors (the “Audit Committee”) of Conifer Holdings, Inc. (the “Company”) dismissed Deloitte & Touche LLP (“Deloitte”) as the Company’s independent registered public accounting firm.

During the Company’s two most recent fiscal years ended December 31, 2021 and December 31, 2020 and during the subsequent interim period from January 1, 2022 through June 1, 2022, (i) there were no disagreements with Deloitte on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures that, if not resolved to Deloitte’s satisfaction, would have caused Deloitte to make reference to the subject matter of the disagreement in connection with its reports and (ii) there were no “reportable events” as defined in Item 304(a)(1)(v) of Regulation S-K.

(b) New Independent Registered Public Accounting Firm.

On June 1, 2022, the Audit Committee approved the engagement of Plante & Moran, PLLC (“Plante Moran”) as its new independent registered public accounting firm, subject to Plante Moran completing its client acceptance process. Plante Moran’s appointment is for the Company’s fiscal year ending December 31, 2022, and related interim periods.

During the Company’s two most recent fiscal years ended December 31, 2021 and December 31, 2020, and for the subsequent interim period through June 1, 2022, neither the Company nor anyone on its behalf consulted Plante Moran regarding (i) the application of accounting principles to a specified transaction, either completed or proposed; or on the type of audit opinion that might be rendered on the consolidated financial statements of the Company, and neither a written report nor oral advice was provided to the Company that Plante Moran concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement as defined in Item 304(a)(1)(iv) of Regulation S-K or a reportable event as described in Item 304(a)(1)(v) of Regulation S-K.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company’s management, including its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of December 31, 2022. Based on such evaluations, the Chief Executive Officer and Chief Financial Officer have concluded the Company’s disclosure controls and procedures are effective in recording, processing, summarizing, and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, and that information is accumulated and communicated to the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management’s Annual Report on Internal Control over Financial Reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s internal control over financial reporting based on the framework in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company's management has concluded that, as of December 31, 2022, the Company's internal control over financial reporting was effective.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

There was no change in internal controls over financial reporting during the quarter ended December 31, 2022 that has materially affected, or is reasonably likely to materially effect, our internal controls over financial reporting.

Attestation Report of the Registered Public Accounting Firm

This Annual Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting as required by Section 404(c) of the Sarbanes Oxley Act of 2002 due to the Company's small reporting company status elected on Form 10-K.

ITEM 9B. OTHER INFORMATION

None.

PART III

Certain information required by Part III is omitted from this Report in that the Registrant will file a definitive Proxy Statement pursuant to Regulation 14A (the “Proxy Statement”) not later than 120 days after the end of the fiscal year covered by this report and certain information included therein is incorporated herein by reference. Only those sections of the Proxy Statement that specifically address the items set forth herein are incorporated by reference.

ITEMS 10 to 14

Items 10 through 14 (inclusive) of this Part III are not included herein because the Company will file a definitive Proxy Statement with the SEC that will include the information required by such Items, and such information is incorporated herein by reference. The Company’s Proxy Statement will be filed with the SEC and delivered to stockholders in connection with the Annual Meeting of Shareholders to be held on May 17, 2023 and the information under the following captions is included in such incorporation by reference: *“Information about the Nominees, the Incumbent Directors and Other Executive Officers,” “Corporate Governance,” “Code of Conduct,” “Report of the Audit Committee,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Compensation of Executive Officers,” “Director Compensation,” “Report of the Compensation Committee of the Board on Executive Compensation,” “Compensation Committee Interlocks and Insider Participation,” “Security Ownership of Certain Beneficial Owners and Management,”* “*Certain Relationships and Related Party Transactions,” “Independence Determination,” and “The Second Proposal on Which You are Voting on Ratification of Appointment of Independent Registered Public Accounting Firm."* Our Code of Business Conduct and Ethics can be found on our website www.cnfrh.com.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this Report:

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Conifer Holdings, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Conifer Holdings, Inc. (the "Company") as of December 31, 2022, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for the year ended December 31, 2022, and the related notes and schedules (collectively referred to as the "financial statements").

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the year ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current year audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

Liability for Unpaid Losses and Loss Adjustment Expenses - Refer to Notes 1 and 7 to the Financial Statements

Critical Audit Matter Description

The Company's estimated liability for unpaid losses and loss adjustment expense (LAE) totaled $165.5 million at December 31, 2022. The Company's reserve for unpaid losses and LAE represents the estimated ultimate cost of settling all claims incurred related to insured events that have occurred as of the reporting date. The Company determines the reserve for unpaid losses and LAE on an individual-case basis for those claims reported as of December 31, 2022, with bulk reserves for additional development, if any, on the reported claims and an estimate for unpaid losses and LAE for all claims incurred related to insured events that have occurred as of December 31, 2022 but have not yet been reported by the policyholders to the Company (collectively referred to as incurred but not reported, or IBNR). The Company estimates IBNR reserves by projecting ultimate losses using industry-accepted actuarial methods. Management engages an independent actuarial firm to prepare an actuarial analysis of unpaid losses and LAE and provides a statement of actuarial opinion on management's estimate of unpaid losses and LAE.

Estimating the liability for unpaid losses and LAE requires significant judgment, relating to factors such as claim development patterns, severity, type and jurisdiction of loss, economic conditions, legislative development, and a variety of actuarial assumptions. Estimating the liability for unpaid losses and LAE is inherently uncertain, dependent on management's judgment, and significantly impacted by claim and actuarial factors and conditions that may change over time. The ultimate settlement of unpaid losses and LAE may vary materially from the recorded liability, and such variance may adversely affect the Company's financial results. For these reasons, we identified the estimate of unpaid losses and LAE as a critical audit matter, as it involved especially subjective auditor judgment.

How the Critical Audit Matter was Addressed in the Audit

Our audit procedures related to the unpaid losses and LAE reserve included the following, among others:

- We obtained an understanding and evaluated the design of key controls over the process and data used by management to estimate the liability for unpaid losses and LAE, including those controls related to the estimation of and management's review of the estimated liability of unpaid losses and LAE.
- We tested the completeness, integrity, and accuracy of the underlying data used by the Company's and their engaged actuary, such as paid loss data, case reserve data, loss adjustment expense data, and loss development tables.
- With assistance from our engaged actuarial specialist, we reviewed the reasonableness of the methods and assumptions used by the Company and their engaged actuary to develop their unpaid losses and LAE reserve estimate.
- We evaluated management's prior year estimate for unpaid losses and LAE and the factors leading to changes in the estimate recognized in the current year.

Purchase of Additional Ownership Interest and Subsequent Sale of Certain Agency Business – Refer to Note 2 to the financial statements

Critical Audit Matter Description

On October 13, 2022, the Company completed a step acquisition by purchasing the remaining 50 percent ownership interest in Venture Agency Holdings, Inc. (VSRM) for $9.7 million, resulting in VSRM being owned 100 percent by the Company. This resulted in a gain on the revaluation of VSRM to fair value at the acquisition date totaling $8.8 million, which is reflected in Revenues and Other income on the Consolidated Statement of Operations.

On October 14, 2022, VSRM sold certain producer business assets to an independent third party. The assets involved in this transaction relate to VSRM's insurance brokerage and associated services provided largely to the security sector. Collectively, these two events are referred to as the VSRM Transaction.

We identified the VSRM Transaction as a critical audit matter because of the significant estimates and assumptions made by management to estimate the fair value of VSRM on October 13, 2022, which was used in determining the fair value of the 50 percent ownership interest to 100 percent ownership and the resulting gain on revaluation and the fair value of the assets and liabilities sold. In addition, the events and transaction as a whole are considered complex and infrequent in nature. The audit of the fair value ofVSRM and determination of the gain recognized from revaluation as a result of the step acquisition required auditor subjectivity and judgment and increased audit effort.

How the Critical Audit Matter was Addressed in the Audit

Our audit procedures related to the VSRM Transaction included the following, among others:

- We reviewed all supporting transaction documents for the VSRM Transaction related to the step acquisition that resulted from the purchase of additional ownership interest and obtaining control of VSRM and documents related to the sale of producer business assets to an outside third party.
- We obtained an understanding of the business purpose of the VSRM Transaction.
- We obtained an understanding of internal controls over the process and data used by the Company in the determination of the fair value of the assets acquired and liabilities assumed in the VSRM acquisition including the related revaluation gain.

- We tested the completeness and accuracy of the underlying internal financial data and supporting documents that were used by the Company to estimate the fair value of VSRM on the acquisition date and the resulting gain from obtaining control prior to the sale of the business producer assets.
- We assessed the fair value of the individual assets and liabilities that were acquired when the Company obtained control of VSRM, which included reviewing the valuation model and key inputs used by management for reasonableness.
- With the assistance of our internal valuation specialists, we evaluated the judgments made by the Company in determining the fair value of the assets acquired, including identified intangible assets and goodwill, and liabilities assumed.
- We reviewed the asset purchase agreement related to the sale of the VSRM business and agreed the assets and liabilities included in the sale to those derecognized by management of the Company at the disposal date.
- We evaluated the overall completeness and accuracy of the VSRM Transaction disclosures within the footnotes to the financial statements.

/s/ Plante & Moran, PLLC

We have served as the Company's auditor since 2022.

Chicago, Illinois
March 27, 2023

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Conifer Holdings, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Conifer Holdings, Inc. and subsidiaries (the "Company") as of December 31, 2021, the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows, for each of the two years in the period ended December 31, 2021, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Unpaid losses and loss adjustment expenses — Refer to Note 1 and Note 6 to the financial statements

Critical Audit Matter Description

Management's estimate of the reserve for unpaid losses and loss adjustment expenses (LAE) relies on several key judgments, including (i) actuarial methods, (ii) relative weights given to these methods by line of business and accident year, and (iii) underlying actuarial assumptions.

Actuarial assumptions include (i) expected loss and LAE ratios and (ii) loss development factors applied to paid losses and case reserves to develop an incurred but not reported liability by line of business and accident year. As of December 31, 2021, the unpaid losses and LAE reserve was $139.1 million. Various factors are considered by management in the estimate for the unpaid losses and LAE, 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 laws and regulations, judicial decisions and economic conditions. Management uses a combination of actuarial methods to project ultimate losses by line of business and by accident year.

We identified the reserves for unpaid losses and LAE as a critical audit matter because of the significant judgments made by management to develop their valuation. This required a high degree of auditor subjectivity and judgment and increased audit effort, including the involvement of our actuarial specialists, when performing audit procedures to evaluate management's selection of the actuarial methods, weights given to these methods by line of business and accident year, expected loss and LAE ratios, and loss development factors.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the valuation of unpaid losses and LAE included the following, among others:

- We considered changes to the Company in the current year, including:
    - Changes to the nature of insurance policies written in the current year, such as changes in retentions, limits and types of insurance risks inherent in the policies.
    - Changes in the Company's mix of business written, by state.
    - Changes in the Company's operations, including those related to changes in claim handling practices, changes in case reserving practices, and pricing changes that could impact the predictability of the trends and patterns observed in the historical data.

- We tested the completeness and accuracy of the underlying claims data used by the Company to develop its expected loss and LAE ratios and loss development factors.

- With the assistance of our actuarial specialists, we evaluated the reasonableness of the recorded unpaid losses and LAE by:
    - Evaluating the actuarial methods and weights given to these methods by management to develop the estimate of the reserve for unpaid losses and LAE.
    - Developing an independent estimate of the reserve for unpaid losses and LAE, based on actuarial methodologies.
    - Performing a retrospective analysis of management's estimated claims emergence in comparison to actual results.

Sale of Certain Agency Business — Refer to Note 2 to the financial statements

Critical Audit Matter Description

During 2021, the Company sold to Venture Agency Holdings, Inc. ("Venture") the customer accounts and other related assets of a portion of its personal and commercial lines of business for the purchase price of $10 million (the "Venture Transaction"). The Company recognized an $8.9 million gain in connection with the Venture Transaction. In order to determine the value of the portion of the business sold, the Company obtained a third-party valuation based on a weighting of discounted cash flow and earnings before interest, taxes, depreciation and amortization ("EBITDA") multiple valuation methods. The valuation included significant estimates and assumptions related to (i) forecasted revenue and EBITDA and (ii) the selection of the EBITDA multiple and discount rate.

We identified the valuation of the Venture Transaction as a critical audit matter because of the significant estimates and assumptions made by management to estimate the fair value of the portion of the business sold and the related gain recognized. The audit of the fair value of the Venture Transaction required a high degree of auditor subjectivity and judgment and increased audit effort, including the need to involve our fair value specialists, when performing audit procedures to evaluate the reasonableness of management's estimates and assumptions related to (i) forecasted revenue and EBITDA and (ii) the selection of the EBITDA multiple and discount rate.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the Venture Transaction included the following, among others:

- Tested the completeness and accuracy of the underlying data used by the Company to develop the forecasted financial information utilized in the valuation.
- Evaluated the reasonableness of the Company’s forecasted financial information by benchmarking the Company’s forecasts of future revenues and EBITDA to the industry and peer companies.
- Performed a sensitivity analysis of the key fair value assumptions impacting the discounted cash flow valuation method.
- With the assistance of our fair valuation specialists, we evaluated:
    - the appropriateness of the valuation methods, the EBITDA multiple and the discount rate used in the third-party valuation.
    - the reasonableness of the recorded valuation of the portion of the business sold by performing an independent range of the valuation estimates.

/s/ DELOITTE & TOUCHE LLP

Detroit, Michigan
March 10, 2022
We began serving as the Company's auditor in 2010. In 2022, we became the predecessor auditor.

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

	December 31,	
	2022	2021
Assets		
Investment securities:		
Debt securities, at fair value (amortized cost of $127,119 and $150,732, respectively)	$ 110,201	$ 149,783
Equity securities, at fair value (cost of $1,905 and $10,972, respectively)	1,267	9,931
Short-term investments, at fair value	25,929	23,013
Total investments	137,397	182,727
Cash and cash equivalents	28,035	9,913
Premiums and agents' balances receivable, net	21,802	21,197
Receivable from Affiliate	1,261	5,784
Reinsurance recoverables on unpaid losses	82,651	40,344
Reinsurance recoverables on paid losses	6,653	1,347
Prepaid reinsurance premiums	16,399	8,301
Deferred policy acquisition costs	10,290	12,267
Other assets	7,862	8,524
Total assets	$ 312,350	$ 290,404
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 165,539	$ 139,085
Unearned premiums	67,887	65,269
Reinsurance premium payable	6,144	5,318
Debt	33,876	33,564
Accounts payable and accrued expenses	19,954	6,665
Total liabilities	293,400	249,901
Commitments and contingencies	—	—
Shareholders' equity:		
Common stock, no par value (100,000,000 shares authorized; 12,215,849 and 9,707,817 issued and outstanding, respectively)	97,913	92,692
Accumulated deficit	(60,760)	(50,079)
Accumulated other comprehensive income (loss)	(18,203)	(2,110)
Total shareholders' equity	18,950	40,503
Total liabilities and shareholders' equity	$ 312,350	$ 290,404

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

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

	Year Ended December 31,		
	2022	2021	2020
Revenue and Other Income			
Gross earned premiums	$ 135,401	$ 123,050	$ 106,614
Ceded earned premiums	(38,690)	(24,248)	(17,511)
Net earned premiums	96,711	98,802	89,103
Net investment income	3,043	1,968	3,156
Net realized investment gains (losses)	(1,505)	2,878	8,126
Change in fair value of equity securities	403	(2,020)	228
Gain from VSRM Transaction	8,810	—	—
Loss portfolio transfer risk fee	(5,400)	—	—
Other gains (losses)	59	11,664	260
Other income	2,768	2,671	2,615
Total revenue and other income	104,889	115,963	103,488
Expenses			
Losses and loss adjustment expenses, net	81,440	69,861	56,228
Policy acquisition costs	22,179	28,451	26,105
Operating expenses	18,789	16,509	18,468
Interest expense	2,971	2,852	2,925
Total expenses	125,379	117,673	103,726
Income (loss) before income taxes	(20,490)	(1,710)	(238)
Equity earnings in Affiliate, net of tax	368	824	839
Income tax expense (benefit)	(9,441)	208	6
Net income (loss)	$ (10,681)	$ (1,094)	$ 595
Net income (loss) per share, basic and diluted	$ (1.00)	$ (0.11)	$ 0.06
Weighted average common shares outstanding, basic and diluted	10,692,090	9,691,998	9,625,059

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

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

	Year Ended December 31,		
	2022	2021	2020
Net income (loss)	$ (10,681)	$ (1,094)	$ 595
Other comprehensive income (loss), net of tax:			
Unrealized investment gains (losses):			
Unrealized investment gains (losses) during the period	(16,024)	(2,937)	1,589
Income tax expense (benefit)	—	—	—
Unrealized investment gains (losses), net of tax	(16,024)	(2,937)	1,589
Less: reclassification adjustments to:			
Net realized investment gains (losses) included in net income (loss)	69	85	1,166
Income tax expense (benefit)	—	—	—
Total reclassifications included in net income (loss), net of tax	69	85	1,166
Other comprehensive income (loss)	(16,093)	(3,022)	423
Total comprehensive income (loss)	$ (26,774)	$ (4,116)	$ 1,018

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

CONIFER HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statement of Changes in Shareholders' Equity
(dollars in thousands)

	No Par, Common Stock		Retained Earnings (Accumulated deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount			
Balances at January 1, 2020	**9,592,861**	**$ 91,816**	**$ (49,580)**	**$ 489**	**$ 42,725**
Net income (loss)	—	—	595	—	595
Repurchase of common stock	(11,586)	(36)	—	—	(36)
Stock-based compensation expense	100,453	706	—	—	706
Other comprehensive income	—	—	—	423	423
Balances at December 31, 2020	**9,681,728**	**92,486**	**(48,985)**	**912**	**44,413**
Net income (loss)	—	—	(1,094)	—	(1,094)
Repurchase of common stock	(3,886)	(12)	—	—	(12)
Stock-based compensation expense	29,975	218	—	—	218
Other comprehensive income (loss)	—	—	—	(3,022)	(3,022)
Balances at December 31, 2021	**9,707,817**	**$ 92,692**	**$ (50,079)**	**$ (2,110)**	**$ 40,503**
Net income (loss)	—	—	(10,681)	—	(10,681)
Repurchase of common stock	(1,968)	10	—	—	10
Issuance of common stock private placement	2,500,000	5,000	—	—	5,000
Stock-based compensation expense	10,000	211	—	—	211
Other comprehensive income (loss)	—	—	—	(16,093)	(16,093)
Balances at December 31, 2022	**12,215,849**	**$ 97,913**	**$ (60,760)**	**$ (18,203)**	**$ 18,950**

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

CONIFER HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(dollars in thousands)

	Year Ended December 31,		
	2022	2021	2020
Cash Flows from Operating Activities			
Net income (loss)	$ (10,681)	$ (1,094)	$ 595
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Gain upon consolidation of VSRM (1) and sale of agency business	(10,052)	—	—
Gain on sale of agency business	-	(8,910)	—
Depreciation and amortization	417	423	437
Amortization of bond premium and discount, net	320	523	655
Net realized investment (gains) losses	1,505	(2,878)	(8,126)
Change in fair value of equity securities	(403)	2,020	(228)
Loss on sale of fixed assets	33	—	—
Deferred Income tax expense	(9,396)	—	—
Stock-based compensation expenses	211	218	706
Equity earnings in Affiliate, net of tax	(368)	(824)	(839)
PPP Loan forgiveness	—	(2,745)	0
Other	60	17	(262)
Changes in operating assets and liabilities:			
(Increase) decrease in:			
Premiums, agents' balances and other receivables	(594)	(811)	311
Reinsurance recoverables	(47,613)	(15,335)	1,378
Prepaid reinsurance premiums	(8,098)	(6,985)	(66)
Deferred policy acquisition costs	1,977	(24)	(337)
Other assets	(138)	949	908
Increase (decrease) in:			
Unpaid losses and loss adjustment expenses	26,454	27,815	4,024
Unearned premiums	2,618	9,045	4,721
Reinsurance premiums payable	11,926	5,318	—
Accounts payable and other liabilities	1,348	(1,367)	(895)
Net cash provided by operating activities	(40,474)	5,355	2,982
Cash Flows From Investing Activities			
Purchases of investments	(318,227)	(226,794)	(391,588)
Proceeds from maturities and redemptions of investments	20,324	25,834	23,403
Proceeds from sales of investments	324,091	198,408	360,926
Proceeds from sale of agency business, net of $271 of cash disposed of (1)	32,759	4,000	—
Purchase of VSRM, net of $3,920 cash acquired (1)	(1,947)	—	—
Deconsolidation of SSU (1)	(497)	—	—
Dividends from Affiliate	—	1,000	—
Other purchases	—	(1,071)	(78)
Net cash provided by (used in) investing activities	56,503	1,377	(7,337)
Cash Flows From Financing Activities			
Proceeds received from issuance of shares of common stock	5,000	—	—
Repurchase of common stock	10	(12)	(36)
Borrowings under lines of credit	19,500	3,000	5,745
Repayment of lines of credit	(19,500)	(8,000)	(625)
Paydown of long-term debt	(2,917)	—	—
Net cash provided by (used in) financing activities	2,093	(5,012)	5,084
Net increase (decrease) in cash	18,122	1,720	729
Cash at beginning of period	9,913	8,193	7,464
Cash at end of period	$ 28,035	$ 9,913	$ 8,193
Supplemental Disclosure of Cash Flow Information:			
Interest paid	$ 2,979	$ 2,883	$ 2,586
Income taxes paid (refunded), net	$ (11)	$ 163	$ (82)
Increase in note receivable from sale of agency business	$ —	$ 6,000	$ —

(1) See Note 2 ~ *VSRM Transaction*

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

1. Summary of Significant Accounting Policies

Recent Developments

COVID-19 (the "Pandemic") continues to cause significant disruption to public health, the global economy, financial markets, and commercial, social and community activity in general. As there has been a significant reduction in reported cases and correspondingly a reduction in government restrictions, we see reduced risk to our business. We continue to monitor potential risks the Pandemic may present including a potential resurgence. Our exposure to the Pandemic is manifold. The majority of our employees continue to work remotely however strict "shelter-in-place" or "stay-at-home" orders have been lifted. A significant portion of our revenues are generated from the hospitality sector within the U.S. which remains under stress due to the threats of resurgence and resource shortages that resulted from the Pandemic.

We have continued to provide customer service, process new and renewal business, handle claims and otherwise manage all operations even though the vast majority of the staff is working remotely. To date, we have not seen a major disruption in our business as a result of the Pandemic and currently do not expect to see a material negative impact to our financial position or results of operations as a result of the Pandemic.

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"), Red Cedar Insurance Company ("RCIC"), White Pine Insurance Company ("WPIC"), Sycamore Insurance Agency, Inc. ("Sycamore"), and, as of October 13, 2022, VSRM, Inc. ("VSRM"). VSRM has substantially no operations following the contribution to SSU as described in Note 2 ~ *VSRM Transaction*. CIC, WPIC, and RCIC are collectively referred to as the "Insurance Company Subsidiaries." On a stand-alone basis Conifer Holdings, Inc. is referred to as the "Parent Company."

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which differ from statutory accounting practices prescribed or permitted for insurance companies by regulatory authorities.

Business

The Company is engaged in the sale of property and casualty insurance products and has organized its principal operations into three types of insurance businesses: commercial lines, personal lines, and agency business. The Company underwrites a variety of specialty insurance products, including property, general liability, 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 ("U.S."). The Company's corporate headquarters are located in Troy, Michigan with additional office facilities in Florida and Michigan.

Summary of Significant Accounting Policies

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. In applying these estimates, management makes subjective and complex judgments that frequently require assumptions about matters that are inherently uncertain, including uncertainties associated with the Pandemic. 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.

Cash, Cash Equivalents, and Short-term Investments

Cash consists of cash deposits in banks, generally in operating accounts. Cash equivalents consist of money-market funds that are specifically used as overnight investments tied to cash deposit accounts. Short-term investments, consisting of money-market funds, are classified as short-term investments in the consolidated balance sheets as they relate to the Company's investment activities.

Lease Accounting

The Company accounts for leases under FASB Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842), which required the recognition of a right-of-use asset and a corresponding lease liability, discounted to the present value upon initial recognition, for all leases that extend beyond 12 months. For operating leases, the asset and liability are amortized over the lease term with expense recognized on a straight-line basis and all cash flows included in the operating section of the consolidated statement of cash flows. We do not have any financing leases. Our operating leases consist primarily of real estate utilized in the operation of our businesses with lease terms ranging from 5 to 10 years. Management has determined the appropriate discount rate to use in calculating the right-to-use asset and lease liability is 6.75%. The Company records a right-of-use asset and lease liabilities included in Other Assets and Other Liabilities in the Consolidated Balance Sheets. As of December 31, 2022, the Company had a right-of-use asset of $1.3 million, and lease liabilities of $1.3 million. As of December 31, 2021, the Company had a right-of-use asset of $1.4 million, and lease liabilities of $1.5 million.

Investment Securities

Debt securities are classified as available-for-sale and reported at fair value. The Company determines the fair value using the market approach, which uses quoted prices or other relevant data based on market transactions involving identical or comparable assets. The Company purchases available-for-sale debt securities with the expectation that they will be held to maturity, however the Company may sell them if market conditions or credit-related risk warrant earlier sales. The Company does not have any securities classified as held-to-maturity or trading.

The change in unrealized gain and loss on debt securities is recorded as a component of accumulated other comprehensive income (loss), net of the related deferred tax effect, until realized.

The debt securities portfolio includes structured securities. The Company recognizes income from these securities using a constant effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from anticipated prepayments, the estimated economic life is recalculated and the remaining unamortized premium or discount is amortized prospectively over the remaining economic life. Premiums and discounts on structured securities are amortized or accreted over the life of the related available-for-sale security as an adjustment to yield using the effective interest method. Such amortization and accretion is included in interest income in the consolidated statements of operations. Dividend and interest income are recognized when earned.

Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis and included in earnings on the trade date.

Equity securities that do not result in consolidation and are not accounted for under the equity method are measured at fair value and any changes in fair value are recognized in net income in the Consolidated Statements of Operations.

Investment company limited partnerships are measured at their net asset value, which approximates fair value. Any changes in the net asset value are recognized in net income in the Consolidated Statements of Operations.

The Company carries other equity investments that do not have a readily determinable fair value at cost, less impairment and adjusted for observable price changes under the measurement alternative provided under GAAP. We review these investments for impairment during each reporting period. These investments are a component of Other Assets in the Consolidated Balance Sheets.

Other-than-Temporary Impairments

The Company reviews its impaired securities for possible other-than-temporary impairment ("OTTI") at each quarter-end. A security has an impairment loss when its fair value is less than its cost or amortized cost at the balance sheet date. The Company considers the following factors in performing its review: (i) the amount by which the security's fair value is less than its cost, (ii) length of time the security has been impaired, (iii) whether management has the intent to sell the security, (iv) if it is more likely than not that management will be required to sell the security before recovery of its amortized cost basis, (v) whether the impairment is due to an issuer-specific event, credit issues or change in market interest rates, (vi) the security's credit rating and any recent downgrades or (vii) stress testing of expected cash flows under different scenarios. If the Company cannot conclude that declines in fair value below amortized cost are considered temporary, an OTTI loss is recorded through the Consolidated Statements of Operations in the current period.

For all other impaired securities, the Company will assess whether the net present value of the cash flows expected to be collected from the security is less than its amortized cost basis. Such a shortfall in cash flows is referred to as a "credit loss." For any such security, the Company separates the impairment loss into: (i) the credit loss and (ii) the non-credit loss, which is the amount related to all other factors such as interest rate changes, fluctuations in exchange rates and market conditions. The credit loss charge is recorded to the current period statements of operations and the non-credit loss is recorded to accumulated other comprehensive income (loss), within shareholders' equity, on an after-tax basis. A security's cost basis is permanently reduced by the amount of a credit loss. Income is accreted over the remaining life of a security based on the interest rate necessary to discount the expected future cash flows to the new basis. If the security is non-income producing, any cash proceeds are applied as a reduction of principal when received.

Recognition of Premium Revenues

All of the property and casualty policies written by our insurance companies are considered short-duration contracts. These policy premiums are earned on a daily pro-rata basis, net of reinsurance, over the term of the policy, which are primarily twelve months in duration. The portion of premiums written that relate to the unexpired terms of policies in force are deferred and reported as unearned premium at the balance sheet date.

Reinsurance

Reinsurance premiums, commissions, losses and loss adjustment expenses ("LAE") on reinsured business are accounted for on a basis consistent with that used in accounting for the original policies issued and the terms of the reinsurance contracts. The amounts reported as reinsurance recoverables include amounts billed to reinsurers on losses and LAE paid as well as estimates of amounts expected to be recovered from reinsurers on insurance liabilities that have not yet been paid. Reinsurance recoverables on unpaid losses and LAE are estimated based upon assumptions consistent with those used in establishing the gross liabilities as they are applied to the underlying reinsured contracts. The Company records an allowance for uncollectible reinsurance recoverables based on an assessment of the reinsurer's creditworthiness and collectability of the recorded amounts. Management believes an allowance for uncollectible recoverables from its reinsurers was not necessary for the periods presented.

The Company receives ceding commissions in connection with certain ceded reinsurance. The ceding commissions are recorded as a reduction of policy acquisition costs.

In 2022, the Company entered into a loss portfolio transfer ("LPT") reinsurance agreement. The LPT is a retroactive reinsurance contract. See Note 8 ~ *Reinsurance* for further details regarding the LPT.

Deferred Policy Acquisition Costs

Costs incurred which are incremental and directly related to the successful acquisition of new or renewal insurance business is deferred. These deferred costs consist of commissions paid to agents (net of ceding commissions), premium taxes, and underwriting costs, including compensation and payroll related benefits. Proceeds from reinsurance transactions that represent recovery of acquisition costs reduce applicable unamortized acquisition costs in such a manner that net acquisition costs are capitalized and charged to expense. Amortization of such policy acquisition costs is charged to expense in proportion to premium earned over the estimated policy term.

To the extent that unearned premiums on existing policies are not adequate to cover the sum of expected losses and LAE, unamortized acquisition costs and policy maintenance costs, unamortized deferred policy acquisition costs are charged to expense to the extent required to eliminate the premium deficiency. If the premium deficiency is greater than the unamortized policy acquisition costs, a liability is recorded for any such deficiency. As of December 31, 2022, there was no premium deficiency reserve. The Company considers anticipated investment income in determining whether a premium deficiency exists. Management performs this evaluation at each insurance product line level.

Unpaid Losses and Loss Adjustment Expenses

The liability for unpaid losses and LAE in the Consolidated Balance Sheets represents the Company's estimate of the amount it expects to pay for the ultimate cost of all losses and LAE incurred that remain unpaid at the balance sheet date. The liability is recorded on an undiscounted basis, except for the liability for unpaid losses and LAE assumed related to any acquired companies which are initially recorded at fair value. The process of estimating the liability for unpaid losses and LAE is a complex process that requires a high degree of judgment.

The liability for unpaid losses and LAE represents the accumulation of individual case estimates for reported losses and LAE, and actuarially determined estimates for incurred but not reported losses and LAE and includes a provision for estimated costs to settle all outstanding claims at the balance sheet date. The liability for unpaid losses and LAE is intended to include the ultimate net cost of all losses and LAE incurred but unpaid as of the balance sheet date. The liability is stated net of anticipated deductibles, salvage and subrogation, and gross of reinsurance ceded. The estimate of the unpaid losses and LAE liability is continually reviewed and updated. Although management believes the liability for losses and LAE is reasonable, the ultimate liability may be more or less than the current estimate.

The estimation of ultimate liability for unpaid losses and LAE is a complex, imprecise and inherently uncertain process, and therefore involves a considerable degree of judgment and expertise. The Company utilizes various actuarially-accepted reserving methodologies in deriving the continuum of expected outcomes and ultimately determining its estimated liability amount. These methodologies utilize various inputs, including but not limited to written and earned premiums, paid and reported losses and LAE, expected initial loss and LAE ratio, which is the ratio of incurred losses and LAE to earned premiums, and expected claim reporting and payout patterns (including company-specific and industry data). The liability for unpaid loss and LAE does not represent an exact measurement of liability, but is an estimate that is not directly or precisely quantifiable, particularly on a prospective basis, and is subject to a significant degree of variability over time. In addition, the establishment of the liability for unpaid losses and LAE makes no provision for the broadening of coverage by legislative action or judicial interpretation or for the extraordinary future emergence of new types of losses not sufficiently represented in the Company's historical experience or which cannot yet be quantified. As a result, an integral component of estimating the liability for unpaid losses and LAE is the use of informed subjective estimates and judgments about the ultimate exposure to unpaid losses and LAE. The effects of changes in the estimated liability are included in the results of operations in the period in which the estimates are revised.

The Company allocates the applicable portion of the unpaid losses and LAE to amounts recoverable from reinsurers under reinsurance contracts and reports those amounts separately as assets on the consolidated balance sheets.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax-credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred tax assets are recognized to the extent that there is sufficient positive evidence, as allowed under the Accounting Standard Codification ("ASC") 740, *Income Taxes,* to support the recoverability of those deferred tax assets. The Company establishes a valuation allowance to the extent that there is insufficient evidence to support the recoverability of the deferred tax asset under ASC 740. In making such a determination, management considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If it is determined that the deferred tax assets would be realizable in the future in excess of their net recorded amount, an adjustment would be made to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

As of December 31, 2022 and 2021, the Company did not have any unrecognized tax benefits and had no accrued interest or penalties related to uncertain tax positions.

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. The Company recognizes commission income on the later of the effective date of the policy, the date when the premium can be reasonably established, or the date when substantially all services related to the insurance placement have been rendered.

Operating Expenses

Operating expenses consist primarily of other underwriting, compensation and benefits, information technology, facility and other administrative expenses.

Accounting Guidance Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326),* which amends the current methodology and timing for recognizing credit losses. This amendment will replace the current GAAP "incurred loss" methodology for credit losses with a methodology based on expected credit losses. The new guidance will also require expanded consideration of a broader range of reasonable and increased supportable information for the credit loss estimates. This ASU is effective for annual and interim reporting periods beginning after December 15, 2022. Management does not expect the new guidance to have a material impact on the Company's consolidated financial statements.

In January 2021, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848)*. This guidance provides optional expedients and exceptions that are intended to ease the burden of updating contracts to contain a new reference rate due to the discontinuation of the London Inter-Bank Offered Rate (LIBOR). This guidance is available immediately and may be implemented in any period prior to the guidance expiration on December 31, 2024. Management does not expect the new guidance to have a material impact on the Company's consolidated financial statements.

Risks and Uncertainties

The Company is exposed to interest rate risks as it maintains a significant amount of its investment portfolio in debt securities. As a result of changes in interest rates during 2022, the Company reported a $16.0 million net unrealized loss that was reflected in other comprehensive income. As of December 31, 2022, total net unrealized losses in the debt securities was $18.2 million. Management believes it will not need to sell debt securities at significant losses as it has the ability and intention to hold them until their values improve.

Management has noted the media has reported a number of recent bank failures. The Company does not have any deposits or investments in any of these banks. Management does not expect any significant impact as a result of these events.

2. VSRM Transaction

Prior to October 13, 2022, Sycamore owned 50% of Venture Agency Holdings, Inc. ("Venture") and has accounted for its ownership under the equity method of accounting. On October 13, 2022, Sycamore purchased the other 50% of Venture from an individual for $9.7 million. Following this purchase, Sycamore obtained control and owned 100% of Venture, which was then renamed to VSRM, Inc. ("VSRM"). VRSM and its two wholly owned subsidiaries, The Roots Insurance Agency, Inc. ("Roots") and Mitzel Insurance Agency, Inc. ("Mitzel") were incorporated into the Company's consolidated financial statements as of the date of the acquisition. Sycamore initially purchased the Venture shares with a promissory note for $9.7 million and ultimately settled the note with $5.9 million of cash received from the Security & Alarm Business sale, described below, and $3.8 million in the form of stock from the buyer of the Security & Alarm Business. The Company acquired the remaining outstanding shares of VSRM, in order to take advantage of net operating tax losses as part of a tax planning strategy to apply to the Security and Alarm Business sale described below, in addition to the strategic focus of getting out of the Security and Alarm line of business.

The Company recognized Sycamore's purchase of the individual's shares of VSRM as a step acquisition and revalued all assets and liabilities upon the acquisition date. This resulted in the recognition of an $8.8 million non-operating gain reported in the Consolidated Statement of Operations as Gain from VSRM Transaction in the fourth quarter of 2022. The Company also utilized $12.5 million of federal income tax net operating losses carried forward and $14.8 million state income tax net operating losses carried forward, for a total net-of-tax benefit of $9.4 million. VSRM retained $8.9 million of debt, and $9.4 million of tax liabilities, as well as other smaller assets and liabilities that did not go with the transaction.

A condensed schedule of assets and liabilities incorporated into the consolidated balance sheet from the VSRM acquisition is provided below:

Cash	$	3,921
Trade receivables		4,604
Customer relationship intangible assets		37,122
Other assets		574
Total assets	$	46,221
Trade and other payables		7,624
Deferred tax liability		9,407
Note payable to Affiliate		6,000
Senior debt		2,917
Total Liabilities	$	25,948
Fair value of net assets acquired	$	20,273

The following table presents the calculation of the $8.8 million revaluation gain related to the Company's equity method investment in VSRM as a result of the VSRM Transaction:

Carrying value of equity method investment in VSRM	$	1,773
Fair value of investment in VSRM		10,583
Gain on step acquisition	$	8,810

The fair value of the equity interest of VSRM immediately prior to the acquisition was $10.6 million. The fair value techniques used to measure the fair value of VSRM included using the recent valuations performed by third party valuation experts and the net realized proceeds received upon the sale of the Security & Alarm Business sold the following day.

There were no material transaction costs incurred in the acquisition of VSRM. Additionally, no results of operations for the Security and Alarm business have been included the consolidated financial statements as that business was immediately disposed of. Results of operations for the retained business have been included from the date of acquisition through December 31, 2022.

On October 14, 2022, VSRM sold all of its security guard and alarm installation insurance brokerage business (the "Security & Alarm Business") to a third party insurance brokerage firm for $38.2 million, of which $32.8 million was paid in cash and $3.8 million was in the form of the buyer's stock. The $3.8 million of buyer's stock was immediately used to settle a portion of the $9.7 million promissory note that was issued to buy the 50% of Venture and the remainder of the promissory note was settled with cash from the sale of business.

As part of the transaction, the individual who previously owned 50% of VSRM transitioned employment to the buyer, along with a team of approximately eight other employees of VSRM. Also, the Company transferred to the buyer, $4.3 million of accounts receivable, $5.8 million of current liabilities, $271,000 in cash as well as all books and records of the business being purchased. The buyer held back $75,000 of cash for a future true up of the trade balances which the Company reflected as a current receivable. The Company recognized this transaction as the sale of a business. Because all assets and liabilities were just adjusted to fair value from the step acquisition described above, the basis of the net assets sold equaled the net proceeds from the sale, thus there was no gain recognized upon the sale of the Security & Alarm Business.

The following table reconciles the net assets disposed of from this transaction:

Cash at closing	$	32,759
Net liabilities transferred		1,499
Hold back		75
Stock of acquirer		3,822
Total purchase price	$	38,155
Cash	$	271
Premiums transferred to buyer		4,326
Intangible assets		38,154
Trade payables and accrued liabilities assumed by buyer		(5,838)
Net assets disposed of		36,913
Net gain		1,242
Broker fee transaction costs		(1,242)
Net gain	$	—

The net gain on revaluation of the investment in VSRM and the disposal of the Security and Alarm Business line are summarized below:

Gross gains	$	10,052
Broker fee		(1,242)
Net gain	$	8,810

On December 30, 2022, VSRM contributed its remaining business, including its two wholly owned subsidiaries (Mitzel and Roots) to a new wholly owned subsidiary, Sycamore Specialty Underwriters, LLC ("SSU"). The business contributed to SSU consisted of customer accounts of substantially all of the personal lines business and a small subset of the commercial lines business underwritten by the Insurance Company Subsidiaries, and all of the customer accounts VSRM produced for third-party insurers, other than the security guard and alarm installation brokerage business previously sold.

On December 31, 2022, Sycamore Financial Group, LLC ("SFG"), wholly owned by Andrew D. Petcoff purchased 50% of SSU from VSRM, Inc. for $1,000. As a result, SSU and its two wholly owned subsidiaries, Roots and Mitzel, are no longer consolidated in the Company's consolidated financial statements as of December 31, 2022, and VSRM's investment in SSU is accounted for using the equity method. The net assets transferred to SSU had a fair value of $0 at the time of the contribution. There was no gain or loss recognized upon the sale of half of SSU to SFG. Included in the net assets transferred to SSU was a $1.0 million promissory note obligation of VSRM that originated as part of the Venture Transaction described below, and is payable to CIC.

The following table provides the assets and liabilities deconsolidated as a result of this transaction:

Cash	$	497
Receivable from VSRM		934
Trade receivables		239
Intangible asset		196
Other assets		514
Total assets	$	2,380
Payable to Affiliates		286
Trade payables		193
Note payable		1,000
Other liabilities		901
Total Liabilities	$	2,380

In order to determine the value of the business contributed to SSU, the Company obtained a third party valuation based on a weighting of discounted cash flows and earnings before interest, taxes, depreciation and amortization (EBITDA) multiple valuation methods. The valuation included significant estimates and assumptions related to (i) forecasted revenue and EBITDA and (ii) the selection of the EBITDA multiple and discount rate.

3. Sale of Certain Agency Business

On June 30, 2021, Sycamore Insurance Agency sold to Venture Agency Holdings, Inc. the customer accounts and other related assets of some of its personal and commercial lines of business, hereby referred to as the ("Venture Transaction"). The customer accounts consist substantially of new and renewal rights and customer lists of the agency. Sycamore will continue to produce various personal and commercial lines that it did not sell to Venture, which is substantially all produced for, and underwritten by, the Insurance Company Subsidiaries. The Company recognized an $8.9 million gain on the sale which is reflected in Other Gains on the Consolidated Statements of Operations.

The purchase price was $10.0 million of which $1.0 million was paid in cash on June 30, 2021, and $9.0 million was in the form of two promissory notes (one for $6.0 million and one for $3.0 million). Both notes require interest-only quarterly payments at a per annum rate of 7.0%, with a five-year maturity. There are no prepayment penalties. On December 14, 2021, Venture paid off the $3.0 million note. On October 20, 2022, Venture paid down $5.0 million of the $6.0 million note. The remaining $1.0 million promissory note was assumed by SSU as part of the contribution of business to SSU described in Note 2 ~ *Acquisition of Joint Venture and Subsequent Sale of Business*.

The assets sold included the customer accounts of substantially all of the personal lines business and a small subset of the commercial lines business underwritten by the Insurance Company Subsidiaries, and all of the customer accounts Sycamore produced for third-party insurers.

The transaction included the transition of 21 employees from Conifer to Venture as well as necessary systems and office functions to operate the business. Venture is not assuming any in-force business or liabilities.

4. 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 December 31, 2022 and 2021 were as follows (dollars in thousands):

	December 31, 2022							
	Cost or Amortized Cost		Gross Unrealized				Estimated Fair Value	
			Gains		Losses			
Debt securities:								
U.S. Government	$	7,833	$	—	$	(335)	$	7,498
State and local government		25,487		1		(4,672)		20,816
Corporate debt		35,347		—		(4,788)		30,559
Asset-backed securities		21,742		—		(1,246)		20,496
Mortgage-backed securities		29,194		—		(5,157)		24,037
Commercial mortgage-backed securities		3,414		—		(186)		3,228
Collateralized mortgage obligations		4,102		—		(535)		3,567
Total debt securities available for sale	$	127,119	$	1	$	(16,919)	$	110,201

	December 31, 2021							
	Cost or Amortized Cost		Gross Unrealized				Estimated Fair Value	
			Gains		Losses			
Debt securities:								
U.S. Government	$	20,723	$	74	$	(77)	$	20,720
State and local government		30,063		555		(189)		30,429
Corporate debt		30,808		88		(550)		30,346
Asset-backed securities		28,652		10		(224)		28,438
Mortgage-backed securities		33,178		105		(762)		32,521
Commercial mortgage-backed securities		1,659		31		—		1,690
Collateralized mortgage obligations		5,649		35		(45)		5,639
Total debt securities available for sale	$	150,732	$	898	$	(1,847)	$	149,783

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 (dollars in thousands):

	December 31, 2022								
	Less than 12 months			12 months or More			Total		
	No. of Issues	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	No. of Issues	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	No. of Issues	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses
Debt securities:									
U.S. Government	8	$ 3,534	$ (135)	5	$ 3,964	$ (200)	13	$ 7,498	$ (335)
State and local government	77	12,966	(2,318)	45	7,147	(2,354)	122	20,113	(4,672)
Corporate debt	27	10,069	(1,373)	42	20,890	(3,415)	69	30,959	(4,788)
Asset-backed securities	6	3,188	(76)	20	17,308	(1,170)	26	20,496	(1,246)
Mortgage-backed securities	57	4,006	(573)	12	20,031	(4,584)	69	24,037	(5,157)
Commercial mortgage -backed securities	4	3,205	(186)	-	-	-	4	3,205	(186)
Collateralized mortgage obligations	26	1,789	(196)	9	1,802	(339)	35	3,591	(535)
Total debt securities available for sale	**205**	**38,757**	**(4,857)**	**133**	**71,142**	**(12,062)**	**338**	**109,899**	**(16,919)**

	December 31, 2021								
	Less than 12 months			12 months or More			Total		
	No. of Issues	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	No. of Issues	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	No. of Issues	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses
Debt securities:									
U.S. Government	6	$ 10,323	$ (47)	1	$ 4,728	$ (30)	7	$ 15,051	$ (77)
State and local government	41	8,875	(172)	4	446	(17)	45	9,321	(189)
Corporate debt	41	22,748	(505)	1	705	(45)	42	23,453	(550)
Asset-backed securities	24	24,305	(219)	2	1,893	(5)	26	26,198	(224)
Mortgage-backed securities	12	27,034	(762)	—	—	—	12	27,034	(762)
Commercial mortgage -backed securities	0	—	0	—	—	—	0	—	0
Collateralized mortgage obligations	10	2,638	(45)	2	29	—	12	2,667	(45)
Total debt securities available for sale	**134**	**$ 95,923**	**$ (1,750)**	**10**	**$ 7,801**	**$ (97)**	**144**	**$ 103,724**	**$ (1,847)**

The Company analyzed its investment portfolio in accordance with its 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 years ended December 31, 2022, 2021, and 2020.

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

	December 31,		
	2022	2021	2020
Debt securities	$ 2,517	$ 2,217	$ 3,213
Equity securities	52	194	220
Cash, cash equivalents, and short-term investments	776	2	138
Total investment income	3,345	2,413	3,571
Investment expenses	(302)	(445)	(415)
Net investment income	$ 3,043	$ 1,968	$ 3,156

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

	December 31,		
	2022	2021	2020
Debt securities:			
Gross realized gains	$ 6	$ 63	$ 4,646
Gross realized losses	(155)	(6)	(8)
Total debt securities	(149)	57	4,638
Equity securities:			
Gross realized gains	375	4,605	4,854
Gross realized losses	(1,731)	(1,784)	(1,366)
Total equity securities	(1,356)	2,821	3,488
Total net realized investment gains	$ (1,505)	$ 2,878	$ 8,126

Proceeds from the sales of available-for-sale securities were $32.0 million, $31.7 million and $101.2 million for the years ended December 31, 2022, 2021, and 2020, respectively. The gross realized gains from sales of available-for-sale securities for the years ended December 31, 2022, 2021, and 2020 were $5,000, $27,000, and $4.6 million, respectively. The gross realized losses from sales of available-for-sale securities for the years ended December 31, 2022, 2021, and 2020 were $155,000, $6,000, and $0, respectively.

As of December 31, 2022, 2021, and 2020 there were $0, $1.0 million, and $1.7 million of payables from securities purchased, respectively. As of December 31, 2022, 2021, and 2020 there were $650,000, $523,000, and $809,000 of receivables from securities sold, respectively.

The Company's gross unrealized losses related to its equity investments were $638,000, $1.0 million, and $0 as of December 31, 2022, 2021, and 2020, respectively. The Company had no gross unrealized gains related to its equity investments as of December 31, 2022 and 2021, respectively. The Company's gross unrealized gains related to its equity investments were $1.0 million as of December 31, 2020. The Company also carries other equity investments that do not have a readily determinable fair value and are recorded at cost, less impairment or observable changes in price. We review these investments for impairment during each reporting period. There was no impairment or observable changes in price recorded during 2022 related to the Company's equity securities without readily determinable fair value. These investments are a component of Other Assets in the Consolidated Balance Sheets. The value of these investments as of December 31, 2022 were $1.8 million.

The table below summarizes the amortized cost and fair value of available-for-sale debt securities by contractual maturity at December 31, 2022. 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 Cost	Estimated Fair Value
Due in one year or less	$ 4,876	$ 4,770
Due after one year through five years	28,396	25,963
Due after five years through ten years	23,974	19,782
Due after ten years	11,421	8,358
Securities with contractual maturities	68,667	58,873
Asset-backed securities	21,742	20,496
Mortgage-backed securities	29,194	24,037
Commercial mortgage-backed securities	3,414	3,228
Collateralized mortgage obligations	4,102	3,567
Total debt securities	$ 127,119	$ 110,201

At December 31, 2022 and 2021, the Insurance Companies Subsidiaries had an aggregate of $8.0 million and $8.5 million, respectively, on deposit in trust accounts to meet the deposit requirements of various state insurance departments. At

December 31, 2022 and 2021, the Company had \$95.7 million and \$76.1 million held in trust accounts to meet collateral requirements with other third-party insurers, relating to various fronting arrangements. There are withdrawal and other restrictions on these deposits, including the type of investments that may be held, however, the Company may generally invest in high-grade bonds and short-term investments and earn interest on the funds.

5. Fair Value Measurements

The Company's financial instruments include assets carried at fair value, as well as debt carried at face value, net of unamortized debt issuance costs, and are disclosed at fair value in this note. All fair values disclosed in this note are determined on a recurring basis other than the debt which is a non-recurring fair value measure. 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.

Net Asset Value (NAV)—The fair values of investment company limited partnership investments and mutual funds are based on the capital account balances reported by the investment funds subject to their management review and adjustment. These capital account balances reflect the fair value of the investment funds.

The following tables present the Company's assets and liabilities measured at fair value, classified by the valuation hierarchy as of December 31, 2022 and 2021 (dollars in thousands):

	December 31, 2022			
		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
Assets:				
Debt Securities:				
U.S. Government	$ 7,498	$ —	$ 7,498	$ —
State and local government	20,816	—	20,816	—
Corporate debt	30,559	—	30,559	—
Asset-backed securities	20,496	—	20,496	—
Mortgage-backed securities	24,037	—	24,037	—
Commercial mortgage-backed securities	3,228	—	3,228	—
Collateralized mortgage obligations	3,567	—	3,567	—
Total debt securities	110,201	—	110,201	—
Equity Securities	917	160	757	—
Short-term investments	25,929	25,929	—	—
Total marketable investments measured at fair value	$ 137,047	$ 26,089	$ 110,958	$ —
Investments measured at NAV:				
Investment in limited partnership	350			
Total assets measured at fair value	$ 137,397			
Liabilities:				
Senior Unsecured Notes *	$ 22,430	$ —	$ 22,430	$ —
Subordinated Notes *	11,300	—	—	11,300
Total Liabilities (non-recurring fair value measure	$ 33,730	$ —	$ 22,430	$ 11,300

* Carried at face value of debt net of unamortized debt issuance costs on the consolidated balance sheet

	December 31, 2021			
		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
Assets:				
Debt Securities:				
U.S. Government	$ 20,720	$ —	$ 20,720	$ —
State and local government	30,429	—	30,429	—
Corporate debt	30,346	—	30,346	—
Asset-backed securities	28,438	—	28,438	—
Mortgage-backed securities	32,521	—	32,521	—
Commercial mortgage-backed securities	1,690	—	1,690	—
Collateralized mortgage obligations	5,639	—	5,639	—
Total debt securities	149,783	—	149,783	—
Equity Securities	9,437	9,154	283	—
Short-term investments	23,013	23,013	—	—
Total marketable investments measured at fair value	$ 182,233	$ 32,167	$ 150,066	$ —
Investments measured at NAV:				
Investment in limited partnership	494			
Total assets measured at fair value	$ 182,727			
Liabilities:				
Senior Unsecured Notes *	$ 24,118	$ —	$ 24,118	$ —
Subordinated Notes *	11,704	—	—	11,704
Total Liabilities measured at fair value	$ 35,822	$ —	$ 24,118	$ 11,704

* Carried at face value of debt net of unamortized debt issuance costs 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 18% of the fair value of the total marketable investments measured at fair value as of December 31, 2022.

Level 2 investments include debt securities and equity 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 82% of the fair value of the total marketable investments measured at fair value as of December 31, 2022.

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

As of December 31, 2022 and 2021, the fair value of the subordinated debt reported at amortized cost was considered a Level 3 liability in the fair value hierarchy and is entirely comprised of the Company's Subordinated Notes. In determining the fair value of the Subordinated Notes outstanding at December 31, 2022 and 2021, the security attributes (issue date, maturity, coupon, calls, etc.) and market rates on September 24, 2018 (the date of the restated and amended agreement which was repriced at that time) were entered into a valuation model. A lognormal trinomial interest rate lattice was created within the model to compute the option adjusted spread ("OAS") which is the amount, in basis points, of interest rate required to be paid under the debt agreement over the risk-free U.S. Treasury rates. The OAS was then entered back into the model along with the December 31, 2022 and 2021, U.S. Treasury rates, respectively. A new lattice was generated and the fair value was computed from the OAS. There were no changes in assumptions of credit risk from the issuance date.

6. 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 years December 31, 2022, 2021, and 2020. The activity in deferred policy acquisition costs, net of reinsurance transactions, is as follows (dollars in thousands):

	December 31,		
	2022	**2021**	**2020**
Balance at beginning of period	$ 12,267	$ 12,243	$ 11,906
Deferred policy acquisition costs	20,202	28,475	26,442
Amortization of policy acquisition costs	(22,179)	(28,451)	(26,105)
Net change	(1,977)	24	337
Balance at end of period	$ 10,290	$ 12,267	$ 12,243

7. Unpaid Losses and Loss Adjustment Expenses

The Company establishes reserves for unpaid losses and 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 as well as a provision for estimated future costs related to claim settlement for all claims 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 prior year 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, any related estimates 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 recoverables from reinsurers, for the periods indicated (dollars in thousands):

	December 31,		
	2022	2021	2020
Gross reserves - beginning of period	$ 139,085	$ 111,270	$ 107,246
Less: reinsurance recoverables on unpaid losses	40,344	24,218	22,579
Net reserves - beginning of period	98,741	87,052	84,667
Add: incurred losses and loss adjustment expenses, net of reinsurance			
Current period	57,156	50,429	40,634
Prior period	24,284	19,432	15,594
Total net incurred losses and loss adjustment expenses	81,440	69,861	56,228
Deduct: loss and loss adjustment expense payments, net of reinsurance			
Current period	20,894	18,984	13,599
Prior period	76,399	39,188	40,244
Total net loss and loss adjustment expense payments	97,293	58,172	53,843
Net reserves - end of period	82,888	98,741	87,052
Plus: reinsurance recoverables on unpaid losses	82,651	40,344	24,218
Gross reserves - end of period	$ 165,539	$ 139,085	$ 111,270

There was $24.3 million, $19.4 million, and $15.6 million of adverse development on prior accident year reserves in 2022, 2021 and 2020, respectively. There were no significant changes in the key methods utilized in the analysis and calculations of the Company's reserves during 2022, 2021 or 2020.

Of the $24.3 million of adverse development in 2022, $1.8 million was related to the 2021 accident year, $4.0 million was related to the 2020 accident year, $9.6 million was related to the 2019 accident year, $5.2 million was related to the 2018 accident year, and $3.7 million was related to 2017 and prior accident years. The adverse development was mostly related to the Company's commercial liability lines and was driven by multiple factors including significant social inflation generating higher severity than historical experience, and longer tail exposure than anticipated, particularly in certain jurisdictions.

In 2021, the adverse development consisted of $18.5 million from commercial lines and $957,000 from personal lines. Of the $18.5 million of adverse development in commercial lines, the Company experienced $12.0 million and $6.5 million of adverse development in its hospitality and small business lines of business, respectively.

The Company experienced $2.0 million of catastrophe losses, net of reinsurance recoverables, during the first quarter of 2021 from winter Storm Uri.

In 2020, the adverse development consisted of $15.2 million from commercial lines and $352,000 from personal lines. Of the $15.2 million of adverse development in commercial lines, the Company experienced $12.0 million and $3.2 million of adverse development in its hospitality and small business lines of business, respectively. The $352,000 of adverse development in personal lines mostly was related to wind-exposed business.

Loss Development Tables

The following tables represent cumulative incurred loss and allocated loss adjustment expenses ("ALAE"), net of reinsurance, by accident year and cumulative paid loss and ALAE, net of reinsurance, by accident year, for the years ended December 31, 2013 to 2022, as well as total IBNR and the cumulative number of reported claims for the year ended December 31, 2022, by reportable segment and accident year (dollars in thousands). The tables do not include reinsurance recoverables from the LPT.

Commercial Lines

	Incurred loss and allocated loss adjustment expenses, net of reinsurance										Total IBNR	Cumulative number of reported claims
Accident Year	**2013***	**2014***	**2015***	**2016***	**2017***	**2018***	**2019***	**2020***	**2021***	**2022**	**2022**	**2022**
2013	10,018	9,435	9,893	10,237	11,252	11,218	11,624	11,804	11,867	12,046	—	613
2014		19,709	19,907	22,711	26,367	28,145	28,766	29,045	29,175	29,011	—	1,754
2015			22,442	26,633	31,861	34,478	36,372	37,795	38,824	39,093	26	2,361
2016				32,396	34,935	40,440	44,355	46,089	46,993	48,677	201	3,557
2017					44,251	44,495	49,749	51,883	55,589	56,649	671	5,832
2018						42,624	42,432	49,741	55,261	60,102	1,637	6,124
2019							41,286	42,129	46,329	55,263	4,529	6,320
2020								33,867	35,328	39,193	3,787	3,830
2021									40,388	42,266	8,744	2,861
2022										41,708	16,067	1,965
									Total	$ 424,008	$ 35,662	

Commercial lines

Cumulative paid loss and allocated loss adjustment expenses, net of reinsurance										
Accident Year	2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020*	2021*	2022
2013	3,979	6,211	7,643	8,622	10,147	10,650	11,137	11,620	11,702	11,935
2014		8,715	13,977	17,458	22,446	25,609	27,544	28,389	28,648	28,608
2015			10,470	17,817	22,549	30,475	34,497	35,833	37,563	38,685
2016				10,255	19,135	27,785	37,967	41,945	43,644	46,957
2017					12,448	23,020	34,205	42,308	47,148	52,800
2018						10,375	19,799	31,633	41,577	50,508
2019							10,078	20,462	28,958	39,893
2020								10,217	17,332	24,225
2021									12,870	21,313
2022										12,839
									Total	$ 327,763

Net Unpaid losses and ALAE, years 2013 through 2022	$ 96,245
Unpaid losses and ALAE, prior to 2013*	177
Unpaid Losses, LPT	(25,913)
Unpaid losses and ALAE, net of reinsurance	$ 70,509

* Presented as unaudited required supplementary information.

Personal Lines

	Incurred loss and allocated loss adjustment expenses, net of reinsurance										Total IBNR	Cumulative number of reported claims
Accident Year	For the years ended December 31, 2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020*	2021*	2022	2022	2022
2013	18,034	17,996	18,925	19,138	19,167	19,202	19,222	19,226	19,227	19,365	—	5,208
2014		17,951	17,471	17,735	17,880	17,929	18,082	18,095	18,097	18,052	—	3,737
2015			10,877	13,445	14,721	15,285	15,364	15,427	15,427	15,448	—	2,152
2016				11,619	13,418	14,949	15,550	15,655	15,634	15,679	—	1,814
2017					14,058	13,550	14,493	14,793	14,911	14,957	—	2,917
2018						5,893	6,378	6,283	6,382	6,298	—	803
2019							3,099	2,712	2,898	2,862	—	342
2020								2,339	2,590	2,636	—	366
2021									4,409	4,332	116	580
2022										9,404	1,427	652
									Total	$ 109,033	$ 1,543	

Personal lines

Accident Year	Cumulative paid loss and allocated loss adjustment expenses, net of reinsurance — For the years ended December 31, 2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020*	2021*	2022
2013	9,955	15,883	18,052	18,600	19,014	19,174	19,214	19,222	19,227	19,365
2014		12,819	16,515	17,260	17,746	17,855	18,047	18,068	18,070	18,025
2015			7,771	11,873	13,844	15,159	15,250	15,290	15,416	15,444
2016				7,119	11,238	14,442	15,110	15,351	15,452	15,679
2017					8,320	12,944	14,004	14,526	14,866	14,957
2018						4,296	5,618	6,100	6,242	6,244
2019							2,119	2,604	2,692	2,850
2020								1,307	2,455	2,605
2021									3,022	3,980
2022										5,397
									Total	$ 104,546

Net Unpaid losses and ALAE, years 2013 through 2022	$ 4,487
Unpaid losses and ALAE, prior to 2013*	—
Unpaid losses and ALAE, net of reinsurance	$ 4,487

* Presented as unaudited required supplementary information.

Total Lines

Accident Year	Incurred loss and allocated loss adjustment expenses, net of reinsurance — For the years ended December 31, 2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020*	2021*	2022	Total IBNR 2022	Cumulative number of reported claims 2022
2013	28,052	27,431	28,817	29,375	30,419	30,420	30,846	31,030	31,094	31,411	—	5,821
2014		37,660	37,378	40,446	44,247	46,074	46,848	47,140	47,272	47,063	—	5,491
2015			33,319	40,078	46,581	49,763	51,736	53,222	54,251	54,541	26	4,513
2016				44,015	48,353	55,389	59,905	61,744	62,627	64,356	201	5,371
2017					58,309	58,045	64,242	66,676	70,500	71,606	671	8,749
2018						48,517	48,810	56,024	61,643	66,400	1,637	6,927
2019							44,385	44,841	49,227	58,125	4,529	6,662
2020								36,206	37,918	41,829	3,787	4,196
2021									44,797	46,598	8,860	3,441
2022										51,112	17,494	2,617
									Total	533,041	37,205	

Total lines

Accident Year	Cumulative paid loss and allocated loss adjustment expenses, net of reinsurance									
	For the years ended December 31,									
	2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020*	2021*	2022
2013	13,934	22,094	25,695	27,223	29,162	29,824	30,351	30,842	30,929	31,300
2014		21,534	30,492	34,718	40,192	43,464	45,591	46,457	46,718	46,633
2015			18,241	29,690	36,393	45,634	49,747	51,123	52,979	54,129
2016				17,374	30,373	42,227	53,077	57,296	59,096	62,636
2017					20,768	35,964	48,209	56,834	62,014	67,757
2018						14,671	25,417	37,733	47,819	56,752
2019							12,197	23,066	31,650	42,743
2020								11,524	19,787	26,830
2021									15,892	25,293
2022										18,236
									Total	$ 432,309

Net Unpaid losses and ALAE, years 2013 through 2022	$ 100,732
Unpaid losses and ALAE, prior to 2013*	177
Unpaid losses, LPT	(25,913)
Unpaid losses and ALAE, net of reinsurance	$ 74,996

* Presented as unaudited required supplementary information.

The following table reconciles the loss development information to the consolidated balance sheet for the year ended December 31, 2022, by reportable segment (dollars in thousands).

	December 31, 2022
Net unpaid losses claims and ALAE	
Commercial Lines	$ 70,509
Personal Lines	4,487
Total unpaid losses and LAE, net of reinsurance	74,996
Reinsurance recoverable on losses and LAE	
Commercial Lines	81,301
Personal Lines	1,350
Total reinsurance recoverable on unpaid losses and LAE	82,651
ULAE expense	7,892
Total gross unpaid losses and LAE	$ 165,539

Loss Duration Disclosure (unaudited)

The following table represents the average annual percentage payout of incurred losses by age, net of reinsurance, for each reportable segment.

	Average annual percentage payout of incurred losses by age, net of reinsurance									
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10+
Commercial Lines	34.4%	23.0%	17.7%	10.0%	8.0%	3.6%	1.8%	0.8%	0.4%	0.3%
Personal Lines	69.4%	16.6%	10.1%	2.6%	0.9%	0.2%	0.1%	0.1%	0.0%	0.0%
Total Lines	35.7%	22.8%	17.5%	9.7%	7.7%	3.5%	1.7%	0.8%	0.4%	0.2%

8. Reinsurance

In the normal course of business, the Company participates in reinsurance agreements in order to limit losses that may arise from catastrophes or other individually severe events. The Company primarily ceded all specific loss commercial liability risks in excess of $340,000 in 2022, and $400,000 in 2021 and 2020. The Company ceded specific loss commercial property risks in excess of $300,000 in 2022 and $200,000 in 2021. The Company ceded 40% of specific loss commercial property risks in excess of $400,000 and 60% in excess of $300,000 in 2020. The Company ceded homeowners specific risks in excess of $300,000 in 2022, 2021, and 2020.

A "treaty" is a reinsurance agreement in which coverage is provided for a class of risks and does not require policy by policy underwriting of the reinsurer. "Facultative" reinsurance is where a reinsurer negotiates an individual reinsurance agreement for every policy it will reinsure on a policy-by-policy basis. A loss is covered under a reinsurance contract if the loss occurs within the effective dates of the agreement notwithstanding when the loss is reported.

The Company entered into new specific loss reinsurance treaties on December 31, 2021 and January 1, 2022 which included a 40% ceding commission. The reinsurance premiums related to these treaties increased by the same amount as the ceding commission.

Reinsurance does not discharge the Company, as the direct insurer, from liability to its policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors the concentration of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. To date, the Company has not experienced any significant difficulties in collecting reinsurance recoverables. The Company's current reinsurance structure includes the following primary categories:

Casualty Clash

- Clash coverage is a type of reinsurance that provides additional coverage in the event that one casualty loss event results in two or more claims and recovery under the reinsurance treaties may otherwise be limited due to the amount, type or number of claims. Clash reinsurance further protects the balance sheet as it reduces the potential maximum loss on either a single risk or a large number of risks.
- Effective January 1, 2022 through December 31, 2022, the company was party to a workers’ compensation and casualty clash reinsurance treaty with a limit of $29.0 million in excess of $1.0 million.
- Effective January 1, 2019 through December 31, 2021, the Company was party to a workers' compensation and casualty clash reinsurance treaty with a limit of $19.0 million in excess of a $1.0 million retention. Effective January 1, 2021 through December 31, 2021, the Company ceded 87.0% of its casualty clash risks with a limit of $10.0 million in excess of a $20.0 million retention.

Facultative

- The Company was party to a facultative reinsurance agreement with a large reinsurer for commercial auto physical damage risks primarily in excess of $400,000.
- The Company was party to a facultative reinsurance agreement with a large reinsurer for property risks with total insured values above the other reinsurance treaty limits.

Liability

- Effective January 1, 2019 through December 31, 2022, the Company was party to an excess of loss reinsurance treaty for commercial liability coverage with a limit of $600,000 in excess of $400,000.

Property

- Effective January 1, 2020 through December 31, 2022, the Company was party to an excess of loss reinsurance treaty for personal property coverage with a limit of $1.7 million in excess of $300,000, for homeowners' and dwelling fire business.

- Effective January 1, 2022 through December 31, 2022, the Company was party to an excess of loss reinsurance treaty for commercial property coverage with a limit of $7.7 million in excess of $300,000.
- Effective January 1, 2021 through December 31, 2021, the Company was party to an excess of loss reinsurance treaty for commercial property coverage with a limit of $7.8 million in excess of $200,000.
- Effective January 1, 2020 through December 31, 2020, the Company was party to an excess of loss reinsurance treaty for commercial property coverage with a limit of $7.7 million in excess of $300,000.
- At December 31, 2022, the Company was covered for property catastrophe losses up to $28.0 million in excess of a $2.0 million retention for the first event. This treaty terminates on June 1, 2023.
- At December 31, 2021, the Company was covered for property catastrophe losses up to $28.0 million in excess of a $2.0 million retention for the first event. This treaty terminates on June 1, 2022.
- At December 31, 2020, the Company was covered for property catastrophe losses up to $28.0 million in excess of a $2.0 million retention for the first event. This treaty terminated on June 1, 2021.

Multiple Line

- Effective January 1, 2019 through December 31, 2021, the Company was party to a multi-line excess of loss treaty that covers commercial property and casualty losses up to $600,000 in excess of a $400,000 retention.

Quota Share

- The Company cedes 90% to 100% of its commercial umbrella coverages under quota share treaties. Under a quota share agreement, the reinsurer pays a percentage of all losses the insurer sustains in return for a similar percent of the premiums written on that risk. A ceding commission is paid by the reinsurer to the insurer to cover acquisition and operating expenses.

Loss Portfolio Transfer

- On November 1, 2022, the Company entered into a loss portfolio transfer ("LPT") reinsurance agreement with Fleming Reinsurance Ltd ("Fleming Re"). Under the agreement, Fleming Re will cover an aggregate limit of $66.3 million of paid losses on $40.8 million of stated net reserves as of June 30, 2022, relating to accident years 2019 and prior. This covers substantially all of the commercial liability lines underwritten by the Company. Within the aggregate limit, there is a $5.5 million loss corridor in which the Company retains losses in excess of $40.8 million. Fleming Re is then responsible to cover paid losses in excess of $46.3 million up to $66.3 million. Accordingly, there is $20.0 million of adverse development cover for accident years 2019 and prior. Under the agreement, Fleming Re was compensated with $40.8 million for stated net reserves as of June 30, 2022, plus a one-time risk fee of $5.4 million. Recoverables due to the Company under this agreement are recorded as reinsurance recoverables. The agreement is between CIC and WPIC and Fleming Re. As of December 31, 2022, the Company has recorded losses through the $5.5 million corridor and $644,000 into the $20.0 million layer. As of December 31, 2022, the Consolidated Balance Sheet included $3.8 million of reinsurance recoverables on paid losses related to the LPT, and $25.9 million of reinsurance recoverables on unpaid losses related to the LPT.

Equipment Breakdown, Employment Practice Liability, and Data Compromise and Identity Recovery

- The Company ceded 100% of a small number of equipment breakdown, employment practices liability, and data compromise coverages that are occasionally bundled with other products under a quota share agreement with a reinsurer.

The Company assumes written premiums under a few fronting 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.

The Company assumed $42.2 million, $34.3 million, and $28.9 million of written premiums under the insurance fronting arrangements for the years ended December 31, 2022, 2021 and 2020, respectively.

The following table presents the effects of reinsurance and assumption transactions on written premiums, earned premiums and losses and LAE (dollars in thousands). In 2022, ceded written and earned premium amounts included $1.6 million of reinsurance reinstatement costs relating to Hurricane Ian. In 2021, ceded written and earned amounts included $340,000 of reinsurance reinstatement costs relating to Winter Storm Uri. In 2021 and 2020, the ceded written and earned premium amounts include $86,000 and $195,000 of reinsurance reinstatement costs relating to Hurricane Irma, respectively.

	Year Ended December 31,		
	2022	2021	2020
Written premiums:			
Direct	$ 95,832	$ 97,801	$ 82,430
Assumed	42,187	34,294	28,905
Ceded	(46,787)	(30,666)	(18,395)
Net written premiums	$ 91,232	$ 101,429	$ 92,940
Earned premiums:			
Direct	$ 97,843	$ 91,943	$ 75,130
Assumed	37,558	31,107	31,484
Ceded	(38,690)	(24,248)	(17,511)
Net earned premiums	$ 96,711	$ 98,802	$ 89,103
Loss and loss adjustment expenses:			
Direct	$ 73,000	$ 71,021	$ 48,780
Assumed	43,487	25,740	24,429
Ceded	(35,047)	(26,900)	(16,981)
Net loss and LAE	$ 81,440	$ 69,861	$ 56,228

9. Debt

As of December 31, 2022, the Company's debt is comprised of two instruments: $24.4 million of publicly traded senior unsecured notes which were issued in 2018 and $10.5 million of privately placed Subordinated Notes. A summary of the Company's outstanding debt is as follows (dollars in thousands):

	December 31,	
	2022	2021
Senior unsecured notes	$ 24,186	$ 23,926
Subordinated notes	9,690	9,638
Total	$ 33,876	$ 33,564

Senior unsecured notes

The Company issued $25.3 million of Notes in 2018. The Notes bear an interest rate of 6.75% per annum, payable quarterly at the end of March, June, September and December and mature on September 30, 2023. The Company may redeem the Notes, in whole or in part, at face value at any time after September 30, 2021. The Company did not repurchase any of the Notes during 2022 or 2021.

Management plans to issue new public debt or sell assets to provide sufficient cash flow to pay off the senior unsecured notes that are coming due within the next twelve months. Management believes it is probable that it will be able to issue new public debt and/or sell assets as necessary to repay the senior unsecured notes by September 30, 2023.

Subordinated Notes

The Company also has outstanding $10.5 million of Subordinated Notes maturing on September 30, 2038. The Subordinated Notes bear an interest rate of 7.5% per annum until September 30, 2023, and 12.5% thereafter, and allow for four quarterly interest payment deferrals. Interest is payable quarterly at the end of March, June, September and December. Beginning September 30, 2021, the Company may redeem the Subordinated Notes, in whole or in part, for a call premium of $1.1 million. The call premium escalates each quarter to ultimately $1.75 million on September 30, 2023, then steps up to $3.05 million on December 31, 2023, and increases quarterly at a 12.5% per annum rate thereafter.

As of December 31, 2022, the carrying value of the Notes and Subordinated Notes are offset by $195,000 and $810,000 of debt issuance costs, respectively. The debt issuance costs are amortized through interest expense over the life of the loans.

The Subordinated Notes contain various restrictive financial debt covenants that relate to the Company's minimum tangible net worth, minimum fixed-charge coverage ratios, dividend paying capacity, reinsurance retentions, and risk-based capital ratios. As of December 31, 2022, the Company was in compliance with all of its financial covenants.

Line of credit

The Company maintained a $10.0 million line of credit with a national bank (the "Lender") during 2022. The line of credit carried an interest rate at LIBOR plus 2.75% per annum, payable monthly. The line of credit agreement matured on December 1, 2022, and was not renewed.

Paycheck Protection Program loan

On April 24, 2020, the Company received a $2.7 million loan from the line of credit Lender pursuant to the Paycheck Protection Program of the CARES Act administered by the U.S. Small Business Administration (“SBA”). The Company received notice from the SBA that the loan was 100% forgiven, including accrued interest, on July 8, 2021. This resulted in a $2.8 million gain that is included in Other Gains on the Consolidated Statement of Operations in 2021.

10. Income Taxes

At December 31, 2022, the Company had current income tax receivable of $58,000 included in other assets in the consolidated balance sheets. At December 31, 2021, the Company had current income tax payable of $34,000 included in other assets in the consolidated balance sheets.

The income tax expense (benefit) is comprised of the following (dollars in thousands):

	Year Ended December 31,		
	2022	2021	2020
Current tax expense (benefit)	$ (45)	$ 208	$ 6
Deferred tax expense (benefit)	(9,396)	—	—
Total income tax expense (benefit)	$ (9,441)	$ 208	$ 6

The income tax expense (benefit) differed from the amounts computed by applying the statutory U.S. federal income tax rate of 21% in 2022, 2021 and 2020 to pretax income as a result of the following (dollars in thousands):

	Year Ended December 31,		
	2022	2021	2020
Income (loss) before income taxes	$ (20,490)	$ (1,710)	$ (238)
Statutory U.S. federal income tax rate	(4,303)	(359)	(50)
State income taxes, net of federal benefit	(5,984)	174	44
Tax-exempt investment income and dividend received deduction	(22)	(40)	(50)
Nondeductible meals and entertainment	79	33	23
Valuation allowance on deferred tax assets	3,715	676	(205)
Equity-earnings from Affiliate	195	170	88
Net gain from sale of agency assets	(2,848)	—	—
Utilization of state NOLs	(386)	—	—
PPP Loan forgiveness	—	(578)	—
Other	113	132	156
Income tax expense (benefit)	$ (9,441)	$ 208	$ 6
Effective tax rate	46.1%	(12.2)%	(2.6)%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below (dollars in thousands):

	December 31, 2022	December 31, 2021
Deferred tax assets:		
Discounted unpaid losses and loss adjustment expenses	$ 1,217	$ 1,555
Unearned premiums	2,324	2,561
Net operating loss carryforwards	12,152	12,544
Net unrealized losses on investments	3,687	418
State net operating loss carryforwards	5,097	822
Other	403	102
Gross deferred tax assets	24,880	18,002
Less valuation allowance	(21,663)	(14,594)
Total deferred tax assets, net of allowance	3,217	3,408
Deferred tax liabilities:		
Investment basis difference	23	15
Tax rate change transition discounting	137	183
Equity investment in Affiliate	691	470
Net unrealized gains on investments	—	—
Deferred policy acquisition costs	2,161	2,576
Intangible assets	115	115
Property and equipment	41	47
Other	49	2
Total deferred tax liabilities	3,217	3,408
Net deferred tax liability	$ —	$ —

The net deferred tax liability is recorded in accounts payable and accrued expenses in the consolidated balance sheets.

As of December 31, 2022, the Company has NOL carryforwards for federal income tax purposes of $65.6 million, of which $50.4 million expire in tax years 2030 through 2042 and $15.2 million never expire. Of this amount, $7.6 million are limited in the amount that can be utilized in any one year and may expire before they are realized under Section 382 of the Internal Revenue Code. The Company has state net operating loss carryforwards of $107.2 million, which expire in tax years 2023 through 2042.

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit the use of the existing deferred tax assets under the guidance of ASC 740. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2022. Such objective evidence limits the Company's ability to consider other subjective evidence, such as management's projections for future growth.

Based on its evaluation, the Company has recorded a valuation allowance of $21.7 million and $14.6 million at December 31, 2022 and 2021, respectively, to reduce the deferred tax assets to an amount that is more likely than not to be realized based on the provisions in ASC 740. The amount of the deferred tax assets considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or if objective negative evidence in the form of cumulative losses is no longer present, and additional weight may be given to subjective evidence, such as the Company’s projections for growth.

The Company files consolidated federal income tax returns. For the years before 2019, the Company is no longer subject to U.S. federal examinations; however, the Internal Revenue Service has the ability to review years prior to 2019 to the extent the Company utilized tax attributes carried forward from those prior years. The statute of limitations on state filings is generally three to four years.

11. Statutory Financial Data, Risk-Based Capital and Dividend Restrictions

U.S. state insurance laws and regulations prescribe accounting practices for determining statutory net income and capital and surplus for insurance companies. In addition, state regulators may permit statutory accounting practices that differ from prescribed practices. Statutory accounting practices prescribed or permitted by regulatory authorities for the Company’s Insurance Company Subsidiaries differ from GAAP. The principal differences between statutory accounting practices ("SAP") and GAAP as they relate to the financial statements of the Company’s Insurance Company Subsidiaries are (i) policy acquisition costs are expensed as incurred under SAP, whereas they are deferred and amortized under GAAP, (ii) deferred tax assets are subject to more limitations regarding what amounts can be recorded under SAP and (iii) bonds are recorded at amortized cost under SAP and fair value under GAAP.

Risk-Based Capital ("RBC") requirements as promulgated by the National Association of Insurance Commissioners (‘‘NAIC’’) require property and casualty insurers to maintain minimum capitalization levels determined based on formulas incorporating various business risks (e.g., investment risk, underwriting profitability, etc.) of the Insurance Company Subsidiaries. As of December 31, 2022, 2021 and 2020, the Insurance Company Subsidiaries’ adjusted capital and surplus exceeded their authorized control level as determined by the NAIC’s risk-based capital models.

Summarized 2022, 2021 and 2020 statutory basis information for the non-captive Insurance Company Subsidiaries, which differs from generally accepted accounting principles, is as follows (dollars in thousands).

	CIC	WPIC
2022		
Statutory capital and surplus	$ 47,827	$ 20,651
RBC authorized control level	15,541	5,098
Statutory net income (loss)	(6,846)	(4,171)
RBC %	308%	405%

	CIC	WPIC
2021		
Statutory capital and surplus	$ 50,194	$ 23,603
RBC authorized control level	15,868	5,331
Statutory net income (loss)	(9,161)	(614)
RBC %	316%	443%

	CIC	WPIC
2020		
Statutory capital and surplus	$ 49,271	$ 24,723
RBC authorized control level	14,221	4,547
Statutory net income (loss)	2,059	1,024
RBC %	346%	544%

Dividend Restrictions

The state insurance statutes in which the Insurance Company Subsidiaries are domiciled limit the amount of dividends that they may pay annually without first obtaining regulatory approval. 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. The Insurance Company Subsidiaries must receive regulatory approval in order to pay dividends to the Parent Company from its Insurance Company Subsidiaries.

12. Shareholders' Equity

Common Stock

On August 10, 2022, the Company issued $5.0 million of common equity through a private placement of 2,500,000 shares priced at $2.00 per share. The participants in the private placement consisted of members of the Company's Board of Directors. The Company used the proceeds for growth capital in the Company's specialty core business segments.

For the year ended December 31, 2022, the Company repurchased 1,968 shares of stock valued at approximately $4,000 related to the vesting of the Company's restricted stock units. The Company's additional paid-in capital relating to the Company's stock repurchases was $10,000 for the year ended December 31, 2022. The capital increase was due to a $14,000 adjustment for cash returned related to the Company's stock repurchase program.

For the year ended December 31, 2021, the Company repurchased 3,886 shares of stock valued at approximately $12,000 related to the vesting of the Company's restricted stock units. Upon the repurchase of the Company's shares, the shares remain authorized, but not issued or outstanding.

As of December 31, 2022 and 2021, the Company had 12,215,849 and 9,707,817 issued and outstanding shares of common stock, respectively.

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

13. Accumulated 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):

	Year Ended December 31, 2022	Year Ended December 31, 2021
Balance at beginning of period	$ (2,110)	$ 912
Other comprehensive income (loss) before reclassifications	(16,024)	(2,937)
Less: amounts reclassified from accumulated other comprehensive income (loss)	69	85
Net current period other comprehensive income (loss)	(16,093)	(3,022)
Balance at end of period	$ (18,203)	$ (2,110)

14. Earnings Per Share

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

	Year Ended December 31, 2022	2021	2020
Net income (loss)	$ (10,681)	$ (1,094)	$ 595
Weighted average common shares, basic and diluted*	10,692,090	9,691,998	9,625,059
Earnings (loss) per share, basic and diluted	(1.00)	$ (0.11)	$ 0.06

* The non-vested shares of the restricted stock units and stock options were anti-dilutive as of December 31, 2022, 2021, and 2020. Therefore, the non-vested shares are excluded from earnings (loss) per share for the years ended December 31, 2022, 2021, and 2020.

15. Stock-based Compensation

On March 8, 2022 the Company issued options to purchase 630,000 shares of the Company's common stock to two named executive officers. The right to exercise the options will vest over a five-year period on a straight-line basis. The options have a strike price of $4.53 per share and will expire on March 8, 2032. The estimated fair value of these options is $612,000, which is being expensed ratably over the vesting period. A Black Scholes model was used to determine the fair value of the options at the time the options were issued, using the Company’s historical 5-year market price of its stock to determine volatility (equating to 65.04%), an estimated 5-year term to exercise the options, a 5-year risk-free rate of return of 1.8%, and the market price for the Company’s stock of $2.40 per share.

On June 30, 2020, the Company issued options to purchase 280,000 shares of the Company’s common stock to certain executive officers and other employees. The right to exercise the options will vest over a five-year period on a straight-line basis. The options have a strike price of $3.81 per share and expire on June 30, 2030. The estimated value of these options is $290,000, which will be expensed ratably over the vesting period.

In 2016 and 2018, the Company issued 111,281 and 70,000, respectively, of restricted stock units (“RSUs”) to various employees to be settled in shares of common stock, which were valued at $909,000, and $404,000, respectively, on the dates of grant.

The Company recorded $56,000, $166,000, and $677,000 of compensation expense related to the RSUs for the years ended December 31, 2022, 2021, and 2020, respectively. There were 9,000 unvested RSUs as of December 31, 2022, which will generate an estimated future expense of $17,000.

The Company recorded $53,000, $52,000, and $29,000 of compensation expense for the year ended December 31, 2022, 2021, and 2020, respectively, related to the stock options granted on June 30, 2020. There were 153,000 options outstanding and unvested as of December 31, 2022, which will generate an estimated future expense of $132,000.

The Company recorded $102,000 of compensation expense for the year ended December 31, 2022, related to the stock options granted on March 8, 2022. There were 630,000 options outstanding and unvested as of December 31, 2022, which will generate an estimated future expense of $510,000.

16. Related Party Transactions

The Company employs Nicholas J. Petcoff as its Co-Chief Executive Officer and a Director of the Company's Board of Directors. The Company employed Andrew D. Petcoff as its Senior Vice President of Personal Lines and as President of Sycamore, until June 30, 2021. The Company’s employment of Andrew D. Petcoff ended as the result of the Venture Transaction. See Note 3 ~ *Sale of Certain Agency Business* for additional details. Andrew D. Petcoff resigned from the Company's Board of Directors on December 31, 2022. Andrew D. Petcoff is now the President of Sycamore Specialty Underwriters, LLC ("SSU"), a related Affiliate to the Company as of December 31, 2022. See Note 2 ~ *VSRM Transaction* for additional details.

Nicholas J. Petcoff has been employed with the Company since 2009. Andrew D. Petcoff had formerly been employed with the Company since 2009. They are the sons of the Company's Executive Chairman and Co-Chief Executive Officer, James G. Petcoff.

The Company employed B. Matthew Petcoff as Vice President of Sycamore until June 30, 2021. B. Matthew Petcoff is the brother of the Executive Chairman and Co-Chief Executive Officer, James G. Petcoff. The Company also employed Hilary Petcoff as its Vice President of Enterprise Risk Management until June 30, 2021. Ms. Petcoff is the daughter of the Company’s Executive Chairman and Co-Chief Executive Officer, James G. Petcoff. As a result of the transaction in Note 2 ~ *VSRM Transaction*, B. Matthew Petcoff and Hilary Petcoff are no longer employees of Venture Agency Holdings, Inc., and are no longer affiliated with the Company as of December 31, 2022.

In October 2022, the Company acquired control over Venture (a previous equity method investee) for total consideration of $9.7 million as further described in Note 2 ~ *VRSM Transaction.*

See Note 12 ~ *Shareholders' Equity* for stock issuance to the Company's Board.

17. Employee Benefit Plans

The Company maintains a retirement savings plan under section 401(k) of the Internal Revenue Code (the "Plan") for certain eligible employees. Eligible employees electing to participate in the 401(k) plan may defer and contribute from 1% to 100% of their compensation on a pre-tax or post-tax basis, subject to statutory limits. The Company will match the employees' contributions up to the first 4% of their compensation. The Company's Plan expense amounted to $457,000, $508,000 and $508,000 for the years ended December 31, 2022, 2021 and 2020, respectively.

18. Commitments and Contingencies

Legal proceedings

The Company and its subsidiaries are subject at times to various claims, lawsuits and proceedings relating principally to alleged errors or omissions in the placement of insurance, claims administration, and other business transactions arising in the ordinary course of business. Where appropriate, the Company vigorously defends such claims, lawsuits and proceedings. Some of these claims, lawsuits and proceedings seek damages, including consequential, exemplary or punitive damages, in amounts that could, if awarded, be significant. Most of the claims, lawsuits and proceedings arising in the ordinary course of business are covered by the insurance policy at issue. We account for such activity through the establishment of unpaid losses and LAE reserves. In accordance with accounting guidance, if it is probable that a liability has been incurred as of the date of the financial statements and the amount of loss is reasonably estimable; then an accrual for the costs to resolve these claims is recorded by the Company in the accompanying consolidated balance sheets. Periodic expenses related to the defense of such claims are included in the accompanying consolidated statements of operations. 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 to, either individually, or in the aggregate.

Commitments

The Company is party to an agreement with an unaffiliated company to provide a policy administration, billing, and claims system for the Company. The scope of work and fee structure has changed over time. Currently, the agreement requires a minimum monthly payment of $30,000 with a fee schedule that is scalable with the premium volume, and expires on November 1, 2026.

19. Segment Information

The Company is engaged in the sale of property and casualty insurance products and has organized its business model around three classes of insurance businesses: commercial lines, personal lines, and wholesale agency business. Within these three businesses, the Company offers various insurance products and insurance agency services. Such insurance businesses are engaged in underwriting and marketing insurance coverages, and administering claims processing for such policies. The Company views the commercial and personal lines segments as underwriting business (business that takes on insurance underwriting risk). The wholesale agency business provides non-risk bearing revenue through commissions and policy fees. The wholesale agency business increases the product options to the Company's independent retail agents by offering both insurance products from the Insurance Company Subsidiaries as well as products offered by other insurers.

The Company defines its operating segments as components of the business where separate financial information is available and used by the co-chief operating decision makers in deciding how to allocate resources to its segments and in assessing its performance. In assessing performance of its operating segments, the Company's co-chief operating decision makers, the Co-Chief Executive Officers, review a number of financial measures including gross written premiums, net earned premiums, losses and LAE, net of reinsurance recoveries, and other revenue and expenses. The primary measure used for making decisions about resources to be allocated to an operating segment and assessing its performance is segment underwriting gain or loss which is defined as segment revenues, consisting of net earned premiums and other income, less segment expenses, consisting of losses and LAE, policy acquisition costs and operating expenses of the operating segments. Operating expenses primarily include compensation and related benefits for personnel, policy issuance and claims systems, rent and utilities. The Company markets, distributes and sells its insurance products through its own insurance agencies and a network of independent agents. All of the Company's insurance activities are conducted in the United States with a concentration of activity in Michigan, Florida, Texas and California. For the years ended December 31, 2022, 2021, and 2020, gross written premiums attributable to these four states were 54.1%, 50.6%, and 49.6% respectively, of the Company's total gross written premiums.

The following table summarizes our net earned premiums:

	Net Earned Premium		
	2022	2021	2020
Commercial	84 %	89 %	92 %
Personal	16 %	11 %	8 %
Total	100 %	100 %	100 %

The wholesale agency business sells insurance products on behalf of the Company's commercial and personal lines businesses as well as to third-party insurers. Certain acquisition costs incurred by the commercial and personal lines businesses are reflected as commission revenue for the wholesale agency business and are eliminated in the Eliminations category.

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, some finance and information technology personnel, and other corporate headquarters expenses, (ii) interest expense on the Company's 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, net realized investment gains, and change in fair value of equity securities 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):

Year Ended December 31, 2022	Commercial Lines	Personal Lines	Under-writing	Wholesale Agency	Corp-orate	Elim-inations	Total
Gross written premiums	$ 116,868	$ 21,151	$ 138,019	$ —	$ —	$ —	$ 138,019
Net written premiums	$ 72,318	$ 18,914	$ 91,232	$ —	$ —	$ —	$ 91,232
Net earned premiums	$ 80,823	$ 15,888	$ 96,711	$ —	$ —	$ —	$ 96,711
Other income	245	82	327	5,712	271	(3,542)	2,768
Segment revenue	81,068	15,970	97,038	5,712	271	(3,542)	99,479
Loss and loss adjustment expenses, net	70,762	10,678	81,440	—	—	—	81,440
Policy acquisition costs	17,682	4,604	22,286	3,653	—	(3,760)	22,179
Operating expenses	13,069	1,936	15,005	2,612	1,192	(20)	18,789
Loss portfolio transfer risk fee	5,400	—	—	—	—	—	5,400
Segment expenses	106,913	17,218	118,731	6,265	1,192	(3,780)	127,808
Segment underwriting gain (loss)	(25,845)	(1,248)	(21,693)	(553)	(921)	238	(28,329)
Net investment income				32	3,011		3,043
Net realized investment gains (losses)					(1,505)		(1,505)
Change in fair value of equity securities					403		403
Gain from VSRM Transaction					8,810		8,810
Other gains				(1)	60		59
Interest expense				(42)	(2,929)		(2,971)
Income (loss) before income taxes	$ (25,845)	$ (1,248)	$ (21,693)	$ (564)	$ 6,929	$ 238	$ (20,490)
Selected Balance Sheet Data:							
Deferred policy acquisition costs	$ 7,683	$ 2,796				$ (189)	$ 10,290
Unearned premiums	56,565	11,322					67,887
Unpaid losses and loss adjustment expenses	159,558	5,981					165,539

Year Ended December 31, 2021	Commercial Lines	Personal Lines	Under-writing	Wholesale Agency	Corp-orate	Elim-inations	Total
Gross written premiums	$ 117,075	$ 15,020	$ 132,095	$ —	$ —	$ —	$ 132,095
Net written premiums	$ 87,307	$ 14,122	$ 101,429	$ —	$ —	$ —	$ 101,429
Net earned premiums	$ 87,759	$ 11,043	$ 98,802	$ —	$ —	$ —	$ 98,802
Other income	215	143	358	5,848	365	(3,900)	2,671
Segment revenue	87,974	11,186	99,160	5,848	365	(3,900)	101,473
Loss and loss adjustment expenses, net	63,868	5,993	69,861	—	—	—	69,861
Policy acquisition costs	25,687	3,307	28,994	3,727	—	(4,270)	28,451
Operating expenses	11,648	1,357	13,005	2,382	1,122	—	16,509
Segment expenses	101,203	10,657	111,860	6,109	1,122	(4,270)	114,821
Segment underwriting gain (loss)	(13,229)	529	(12,700)	(261)	(757)	$ 370	(13,348)
Net investment income					1,968		1,968
Net realized investment gains					2,878		2,878
Change in fair value of equity securities					(2,020)		(2,020)
Other gains					11,664		11,664
Interest expense					(2,852)		(2,852)
Income (loss) before income taxes	$ (13,229)	$ 529	$ (12,700)	$ (261)	$ 10,881	$ 370	$ (1,710)
Selected Balance Sheet Data:							
Deferred policy acquisition costs	$ 10,619	$ 2,075				$ (427)	$ 12,267
Unearned premiums	57,491	7,778					65,269
Unpaid losses and loss adjustment expenses	135,084	4,001					139,085

Year Ended December 31, 2020	Commercial Lines	Personal Lines	Under-writing	Wholesale Agency	Corp-orate	Elim-inations	Total
Gross written premiums	$ 102,763	$ 8,572	$ 111,335	$ —	$ —	$ —	$ 111,335
Net written premiums	$ 85,385	$ 7,555	$ 92,940	$ —	$ —	$ —	$ 92,940
Net earned premiums	$ 82,409	$ 6,694	$ 89,103	$ —	$ —	$ —	$ 89,103
Other income	242	150	392	7,571	245	(5,593)	2,615
Segment revenue	82,651	6,844	89,495	7,571	245	(5,593)	91,718
Loss and loss adjustment expenses, net	53,263	2,965	56,228	—	—	—	56,228
Policy acquisition costs	25,051	2,044	27,095	4,938	—	(5,928)	26,105
Operating expenses	12,644	1,069	13,713	3,107	1,648	—	18,468
Segment expenses	90,958	6,078	97,036	8,045	1,648	(5,928)	100,801
Segment underwriting gain (loss)	(8,307)	766	(7,541)	(474)	(1,403)	$ 335	(9,083)
Net investment income					3,156		3,156
Net realized investment gains					8,126		8,126
Change in fair value of equity securities					228		228
Other gains					260		260
Interest expense					(2,925)		(2,925)
Income (loss) before income taxes	$ (8,307)	$ 766	$ (7,541)	$ (474)	$ 7,442	$ 335	$ (238)
Selected Balance Sheet Data:							
Deferred policy acquisition costs	$ 11,858	$ 1,183				$ (798)	$ 12,243
Unearned premiums	51,535	4,689					56,224
Unpaid losses and loss adjustment expenses	106,662	4,608					111,270

Schedule II
Conifer Holdings, Inc.
Condensed Financial Information of Registrant
Balance Sheets – Parent Company Only
(dollars in thousands)

	December 31, 2022	December 31, 2021
Assets		
Investment in subsidiaries	$ 56,670	$ 79,511
Cash	9,022	750
Due from subsidiaries	(9,754)	(7,055)
Due from Affiliate	113	220
Other assets	2,434	2,522
Total assets	$ 58,485	$ 75,948
Liabilities and Shareholders' Equity		
Liabilities:		
Debt	$ 33,876	$ 33,564
Other liabilities	5,659	1,881
Total liabilities	39,535	35,445
Shareholders' equity:		
Common stock, no par value (100,000,000 shares authorized; 12,215,849 and 9,707,817 issued and outstanding, respectively)	97,913	92,692
Accumulated deficit	(60,760)	(50,079)
Accumulated other comprehensive income (loss)	(18,203)	(2,110)
Total shareholders' equity	18,950	40,503
Total liabilities and shareholders' equity	$ 58,485	$ 75,948

The accompanying notes are an integral part of the Condensed Financial Information of Registrant.

Schedule II
Conifer Holdings, Inc.
Condensed Financial Information of Registrant
Statements of Comprehensive Income (Loss) – Parent Company Only
(dollars in thousands)

	Year Ended December 31,		
	2022	2021	2020
Revenue			
Management fees from subsidiaries	$ 4,980	$ 15,952	$ 12,527
Other income	190	2,900	483
Total revenue	5,170	18,852	13,010
Expenses			
Operating expenses	14,365	12,736	14,459
Interest expense	2,816	2,852	2,925
Total expenses	17,181	15,588	17,384
Income (loss) before equity in earnings (losses) of subsidiaries and income tax expense (benefit)	(12,011)	3,264	(4,374)
Income tax expense (benefit)	(4,078)	156	(813)
Income (loss) before equity earnings (losses) of subsidiaries	(7,933)	3,108	(3,561)
Equity earnings (losses) in subsidiaries	(2,748)	(4,202)	4,156
Net income (loss)	(10,681)	(1,094)	595
Other Comprehensive Income			
Equity in other comprehensive income (loss) of subsidiaries	(16,093)	(3,022)	423
Total Comprehensive income (loss)	$ (26,774)	$ (4,116)	$ 1,018

The accompanying notes are an integral part of the Condensed Financial Information of Registrant.

Schedule II
Conifer Holdings, Inc.
Condensed Financial Information of Registrant
Statement of Cash Flows – Parent Company Only
(dollars in thousands)

	Year Ended December 31,		
	2022	2021	2020
Cash Flows from Operating Activities			
Net income (loss)	$ (10,681)	$ (1,094)	$ 595
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	436	415	421
Equity in undistributed (income) loss of subsidiaries	2,748	4,202	(4,156)
Stock-based compensation expense	211	218	706
Deferred income tax expense	3,884	—	—
Other (gain) loss	—	(2,593)	(260)
Changes in operating assets and liabilities:			
Due from subsidiaries	2,699	8,800	(852)
Due from Affiliate	107	(220)	214
Current income tax recoverable	—	—	539
Other assets	62	890	625
Other liabilities	(203)	(915)	(715)
Net cash provided by (used in) operating activities	(737)	9,703	(2,883)
Cash Flows From Investing Activities			
Contributions to subsidiaries	4,000	(5,400)	(1,150)
Dividends received from subsidiaries	—	—	—
Purchases of investments	—	—	(79)
Purchases of property and equipment	—	(20)	—
Net cash provided by (used in) investing activities	4,000	(5,420)	(1,229)
Cash Flows From Financing Activities			
Proceeds received from issuance of shares of common stock	5,000	—	—
Repurchase of common stock	10	(12)	(36)
Borrowings under debt arrangements	5,000	3,000	5,745
Repayment of borrowings under debt arrangements	(5,000)	(8,000)	(625)
Stock and debt issuance costs	—	—	—
Net cash provided by financing activities	5,010	(5,012)	5,084
Net increase (decrease) in cash	8,273	(729)	972
Cash at beginning of period	749	1,478	506
Cash at end of period	$ 9,022	$ 749	$ 1,478
Supplemental Disclosure of Cash Flow Information:			
Interest paid	$ 2,979	$ 2,883	$ 2,586

The accompanying notes are an integral part of the Condensed Financial Information of Registrant.

Conifer Holding, Inc.
Condensed Financial Information of Registrant
Parent Company Only
Notes to Condensed Financial Statements

1. Accounting Policies

Organization

Conifer Holdings, Inc. (the "Parent") is a Michigan‑domiciled holding company organized for the purpose of managing its insurance entities. The Parent conducts its principal operations through these entities.

Basis of Presentation

The accompanying condensed financial information should be read in conjunction with the Consolidated Financial Statements and related Notes of Conifer Holdings, Inc. and Subsidiaries. Investments in subsidiaries are accounted for using the equity method. Under the equity method, the investment in subsidiaries is stated at cost plus contributions and equity in undistributed income (loss) of consolidated subsidiaries less dividends received since the date of acquisition.

The Parent's operations consist of income earned from management and administrative services performed for the insurance entities pursuant to intercompany services agreements. These management and administrative services include providing management, marketing, offices and equipment, and premium collection, for which the insurance companies pay fees based on a percentage of gross premiums written. Also, the Parent receives commission income for performing agency services. The primary operating costs of the Parent are salaries and related costs of personnel, information technology, administrative expenses, and professional fees. The income received from the management and administrative services is used to cover operating costs, meet debt service requirements and cover other holding company obligations.

Estimates and Assumptions

Preparation of the condensed financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed financial statements and accompanying disclosures. Those estimates are inherently subject to change, and actual results may ultimately differ from those estimates.

Dividends

The Parent received a $10.8 million dividend from Sycamore during the fourth quarter of 2022. The Parent received no cash dividends from its subsidiaries in 2021 and 2020. In 2021, the Parent received a $6.0 million non-cash dividend from one of its subsidiaries in the form of a promissory note from Affiliate, which the Parent subsequently contributed to one of the insurance subsidiaries.

2. Guarantees

The Parent has guaranteed the principal and interest obligations of a $10.0 million surplus note issued by Conifer Insurance Company to White Pine Insurance Company (both wholly owned subsidiaries). The note pays interest annually at a per annum rate of 4% and has no maturity.

Schedule V
Conifer Holdings, Inc. and Subsidiaries
Valuation and Qualifying Accounts
For the Years Ended December 31, 2022, 2021, and 2020
(dollars in thousands)

	Balance at Beginning of Period	Charged to Expense	Decrease to Other Comprehensive Income	Deductions from Allowance Account	Balance at End of Period
Valuation for Deferred Tax Assets					
2022	14,594	3,715	3,354	—	21,663
2021	13,292	676	626	—	14,594
2020	13,572	(205)	(75)	—	13,292

CONIFER HOLDINGS, INC.
Exhibit Index

		Incorporated by Reference				
Exhibit Number	Exhibit Description	Form	Period Ending	Exhibit / Appendix Number	Filing Date	Filed / Furnished Herewith
3.1	Second Amended and Restated Articles of Incorporation of Conifer Holdings, Inc.	8-K	September 30, 2015	3.1	August 28, 2015	
3.4	Amended and Restated Bylaws of Conifer Holdings, Inc.	S-1A	September 30, 2015	3.4	July 30, 2015	
10.6	2015 Omnibus Incentive Plan	S-1		10.2	July 2, 2015	
10.7	Lease Agreement, dated September 18, 2013, as amended	S-1		10.3	July 2, 2015	
10.13	Employment agreements - Nicholas J. Petcoff, James G. Petcoff Andrew D. Petcoff, Brian J. Roney	10-K	December 31, 2016	10.13	March 15, 2017	
10.14	Note Purchase Agreement dated September 29, 2017 between the Company and Elanus Capital Investments Master SP Series 3	10-Q	September 30, 2017	10.14	November 11, 2017	
10.15	Credit Agreement Dated as of June 21, 2018 with The Huntington National Bank	10-K	December 31, 2018	10.15	March 13, 2019	
10.16	First Amendment to Note Purchase Agreement dated as of June 21, 2018 between the Company and Elanus Capital Investments Master SP Series 3	10-K	December 31, 2018	10.16	March 13, 2019	
10.17	Amended and Restated Note Purchase Agreement dated September 25, 2018 between the Company and Elanus Capital Investments Master SP Series 3	10-K	December 31, 2018	10.17	March 13, 2019	
10.18	Waiver and Consent from The Huntington National Bank dated as of October 31, 2018, regarding the Amended and Restated Note Purchase Agreement between the Company and Elanus Capital Investments Master SP Series 3	10-K	December 31, 2018	10.18	March 13, 2019	
10.19	First Amendment to Amended and Restated Note Purchase Agreement dated as of December 13, 2018 between the Company and Elanus Capital Investments Master SP Series 3	10-K	December 31, 2018	10.19	March 13, 2019	

10.20	First Amendment to Credit Agreement dated as of December 27, 2018 between the Company and The Huntington National Bank	10-K	December 31, 2018	10.20	March 13, 2019	
10.21	Second Amendment to Amended and Restated Note Purchase Agreement dated as of June 21, 2019 between the Company and Elanus Capital Investments Master SP Series 3	10-K	December 31, 2019	10.21	March 12, 2020	
10.22	Second Amendment to Credit Agreement dated as of June 21, 2019 between the Company and The Huntington National Bank	10-K	December 31, 2019	10.22	March 12, 2020	
10.23	Promissory Note – Paycheck Protection Program Loan dated as of April 24, 2020 between the Company and The Huntington National Bank	10-Q	March 31, 2020	10.23	May 13, 2020	
10.24	Third Amendment to Credit Agreement dated as of April 24, 2020 between the Company and The Huntington National Bank	10-Q	March 31, 2020	10.24	May 13, 2020	
10.25	Amendment to Promissory Note dated as of June 19, 2020 between the Company and The Huntington National Bank	10-Q	June 30, 2020	10.25	August 12, 2020	
10.26	Fourth Amendment to Credit Agreement dated as of June 19, 2020 between the Company and The Huntington National Bank	10-Q	June 30, 2020	10.26	August 12, 2020	
10.27	Amendment to Promissory Note dated as of June 18, 2021 between the Company and The Huntington National Bank	10-Q	June 30, 2021	10.27	August 11, 2021	
10.28	Fifth Amendment to Credit Agreement dated as of June 18, 2021 between the company and the Huntington National Bank	10-Q	June 30, 2021	10.28	August 11, 2021	
10.29	Six Amendment to Credit Agreement dated as of August 8, 2022 between the Company and the Huntington National Bank	10-Q	June 30, 2022	10.29	August 11, 2022	
21.1	List of Subsidiaries of the Company					*
23.1	Consent of Plante Moran PLLC, Independent Registered Public Accounting Firm					*
23.2	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm					*

31.1	Section 302 Certification — Co-CEO	*
31.2	Section 302 Certification — Co-CEO	*
31.3	Section 302 Certification — CFO	
32.1*	Section 906 Certification — Co-CEO	*
32.2*	Section 906 Certification — Co-CEO	
32.3*	Section 906 Certification — CFO	*
101.INS	inline XBRL Instance Document	*
101.SCH	inline XBRL Taxonomy Extension Schema Document	*
101.CAL	inline XBRL Taxonomy Extension Calculation Linkbase	*
101.DEF	inline XBRL Taxonomy Extension Definition Linkbase	*
101.LAB	inline XBRL Taxonomy Extension Label Linkbase	*
101.PRE	inline XBRL Taxonomy Extension Presentation Linkbase	*
104	Cover Page Interactive Data file (embedded within the inline XBRL document)	

* 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 Section 13 or 15(d) of the Securities and 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/ James G. Petcoff
James G. Petcoff
Executive Chairman and Co-Chief Executive Officer
(Principal Executive Officer)

By: /s/ Harold J. Meloche
Harold J. Meloche
Chief Financial Officer and Treasurer
(Principal Accounting and Financial Officer)

Dated: March 27, 2023

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ James G. Petcoff James G. Petcoff	Executive Chairman and Co-Chief Executive Officer (Principal Executive Officer)	March 27, 2023
/s/ Nicholas J. Petcoff Nicholas J. Petcoff	Co-Chief Executive Officer (Principal Executive Officer)	March 27, 2023
/s/ Harold J. Meloche Harold J. Meloche	Chief Financial Officer and Treasurer (Principal Accounting and Financial Officer)	March 27, 2023
/s/ Jeffrey Hakala Jeffrey Hakala	Director	March 27, 2023
/s/ Gerald W. Hakala Gerald W. Hakala	Director	March 27, 2023
/s/ Timothy Lamothe Timothy Lamothe	Director	March 27, 2023
/s/ Richard J. Williams, Jr. Richard J. Williams, Jr.	Director	March 27, 2023
/s/ Joseph D. Sarafa Joseph D. Sarafa	Director	March 27, 2023
/s/ Isolde O'Hanlon Isolde O'Hanlon	Director	March 27, 2023
/s/ John Melstrom John Melstrom	Director	March 27, 2023

Exhibit 21.1

Subsidiaries of Conifer Holdings, Inc.

Subsidiary	State of Formation
Conifer Insurance Company	Michigan
Red Cedar Insurance Company	District of Columbia
Sycamore Insurance Agency	Michigan
White Pine Insurance Company	Michigan
VSRM, Inc.	Michigan
Sycamore Specialty Underwriters, LLC (50% ownership)	Michigan

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement No. 333-206355 on Form S-8 of our report dated March 24, 2023 with respect to the consolidated financial statements and schedules, which appear in Conifer Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the U.S. Securities and Exchange Commission.

/s/ Plante & Moran, PLLC

Chicago, Illinois
March 27, 2023

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-206355 on Form S-8 of our report dated March 10, 2022, relating to the consolidated financial statements and financial statement schedules of Conifer Holdings, Inc. appearing in this Annual Report on Form 10-K of Conifer Holdings, Inc. for the year ended December 31, 2021.

/s/ DELOITTE & TOUCHE LLP

Detroit, Michigan
March 27, 2023

Exhibit 31.1

CO-CHIEF EXECUTIVE OFFICER'S 302 CERTIFICATION

I, James G. Petcoff, certify that:

1. I have reviewed this Annual Report on Form 10-K of Conifer Holdings, Inc.;

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

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 27, 2023

/s/ James G. Petcoff

James G. Petcoff

Co-Chief Executive Officer
(principal executive officer)

Exhibit 31.2

CHIEF FINANCIAL OFFICER'S 302 CERTIFICATION

I, Nicholas J. Petcoff, certify that:

1. I have reviewed this Annual Report on Form 10-K of Conifer Holdings, Inc.;

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

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 27, 2023

/s/ Nicholas J. Petcoff

Nicholas J. Petcoff

Co-Chief Executive Officer
(principal executive officer)

Exhibit 31.3

CHIEF FINANCIAL OFFICER'S 302 CERTIFICATION

I, Harold J. Meloche, certify that:

1. I have reviewed this Annual Report on Form 10-K of Conifer Holdings, Inc.;

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

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 27, 2023

/s/ Harold J. Meloche

Harold J. Meloche

Chief Financial Officer
(principal financial officer)

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Conifer Holdings, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James G. Petcoff, Co-Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 27, 2023

/s/ James G. Petcoff

James G. Petcoff

Co-Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Conifer Holdings, Inc. (the "Company") on Form 10-K for the year ended December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nicholas J. Petcoff, Co-Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 27, 2023

/s/ Nicholas J. Petcoff

Nicholas J. Petcoff
Co-Chief Executive Officer

Exhibit 32.3

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Conifer Holdings, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Harold J. Meloche, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 27, 2023

/s/ Harold J. Meloche

Harold J. Meloche

Chief Financial Officer