# Conifer Holdings Inc.

# 2023 Annual Report

# To Our Fellow Shareholders:

As we reflect on 2023, I want to take a moment to provide some insight into the numbers we've reported for the full year. Despite the challenges presented by the dynamic landscape of the insurance industry and the broader economic environment, I am proud to report that our company has navigated through the complexities with resilience and determination. Our steadfast commitment to our core values, prudent risk management, and strategic decision-making has positioned us well for a bright future

When looking to the future, and across the insurance landscape, it has become increasingly clear that we need to adapt to a production-based world, in order to thrive in a rapidly changing market.

In this dynamic insurance landscape, we've made the strategic decision to transition away from the limitations of a carrier-based revenue model towards a wholesale agency non-risk revenue model. This shift empowers us to foster greater agility in meeting evolving market demands, while reducing exposure to market fluctuations and enhancing stability in our bottom line. By prioritizing non-risk revenues, we're fortifying our resilience against industry uncertainties while ensuring sustainable growth for our company.

Whereby in years past, we had employed a risk retention model, utilizing our operating insurance companies to write and retain underwriting risk, for commercial lines premium, we have moved to a production-based revenue model, through our wholly-owned managing general agency – Conifer Insurance Services, or CIS.

Under this new model, starting in the second quarter of 2024, substantially all of our commercial lines business will be directly written by third-party insurers with A.M. Best ratings of A- or better. Utilizing third-party A-rated capacity providers for our MGA-produced business will provide a much broader reach for existing profitable programs. Further, it will empower us to ensure a sustainable business model going forward – one that is more focused on commission revenue, and less on risk retention through our subsidiary carriers.

I want to assure our shareholders, policyholders, and partners that this transition has been managed thoughtfully and responsibly. We are working closely with all stakeholders to ensure a smooth and seamless transition, minimizing any disruptions to our operations and maintaining the high standards of service and integrity that remain our company's hallmark.

In closing, I would like to express my sincere gratitude to our shareholders for your continued support and confidence in our company. Our success would not be possible without your trust and partnership. As we embark on the journey ahead, I am excited about the prospects for our company and remain committed to delivering superior returns and creating long-term value.

Sincerely,

Nicholas J. Petcoff
Director and CEO

# 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, 2023**

**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 |
| 9.75% Senior Notes due 2028 | CNFRZ | The Nasdaq Stock Market LLC |

Securities registered pursuant to Section 12(g) of the Act: None

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. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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, 2023 was approximately $5.4 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 28, 2024, was 12,222,881.

**Documents Incorporated by Reference**

Portions of the registrant’s Definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the registrant’s 2024 Annual Meeting of Stockholders, to be filed subsequent to the date hereof, are incorporated by reference into Part III of this report. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the conclusion of the registrant’s fiscal year ended December 31, 2023.

**CONIFER HOLDINGS, INC. AND SUBSIDIARIES**

**Form 10-K**

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# CONIFER HOLDINGS, INC. AND SUBSIDIARIES

## PART I

***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.*

## 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"), White Pine Insurance Company ("WPIC"), Red Cedar Insurance Company ("RCIC"), Conifer Insurance Services ("CIS") formerly known as Sycamore Insurance Agency, Inc. ("Sycamore") and, as of October 13, 2022, VSRM, Inc. ("VSRM"). 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." VSRM owns a 50% non-controlling interest in Sycamore Specialty Underwriters, LLC ("SSU" or "Affiliate").

### Business Overview

Historically, the Company has 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 4,400 independent agents that distribute our policies through approximately 950 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, 2023, the average premium amount of an individual policy was $6,900.

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, 2023, the average premium amount of an individual policy was $1,500.

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, 2023, 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 has provided more 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.

***Strategic Shift to Non Risk-Bearing Revenue***

Historically, our wholesale agency segment produced only a small portion of our gross written premiums. Beginning in 2024, our wholesale agency segment is being converted into a full managing general agency (“MGA”) and is expected to produce almost 100% of the Company’s gross written premiums. More importantly, as a result of the Insurance Company Subsidiaries lacking sufficient capital to continue to underwrite the volume of business they have historically written, we plan to utilize third-party insurers and rely mostly on commission revenues in our MGA, CIS. Substantially all of the Company's commercial lines business will be directly written by third-party insurers with A.M. Best ratings of A- or better by the end of the second quarter of 2024. We expect to continue to underwrite the low-value homeowners business written in Texas and the Midwest, however, we will be non-renewing all homeowners business written in Oklahoma by the end of the second half of 2024.

Utilizing third-party insurers as underwriters of our MGA-produced business will provide a much broader reach for our existing profitable programs and we expect this to result in the production of substantially more premium volume for the agency segment generating more commission revenue. This shift will significantly reduce revenues from earned premiums in the near term and investment income, over time, for the Insurance Company Subsidiaries. Cash from operating activities will shift from premiums and investment income to revenues from commissions. Over time, cash from operating activities will be reduced as losses are paid on existing loss reserves which will be offset by cash flows increasing from investing activities as we sell investments to fund the loss payments. We believe this strategic shift is the best path forward to profitability for the Company.

### 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.

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 | | | |
|---|---|---|---|---|
| | 2023 | % | 2022 | % |
| Commercial | $ 107,078 | 74% | $ 116,868 | 85% |
| Personal | 36,756 | 26% | 21,151 | 15% |
| Total | $ 143,834 | 100% | $ 138,019 | 100% |

| | Gross Written Premiums by State | | | |
|---|---|---|---|---|
| | 2023 | % | 2022 | % |
| Michigan | $ 34,996 | 24.3% | $ 33,739 | 24.5% |
| Texas | 21,783 | 15.1% | 14,236 | 10.3% |
| Oklahoma | 17,972 | 12.5% | 11,882 | 8.6% |
| California | 11,479 | 8.0% | 12,967 | 9.4% |
| New York | 9,269 | 6.4% | 10,622 | 7.7% |
| Florida | 7,632 | 5.3% | 13,705 | 9.9% |
| Ohio | 4,996 | 3.5% | 4,378 | 3.2% |
| Pennsylvania | 4,314 | 3.0% | 4,499 | 3.3% |
| Illinois | 3,839 | 2.7% | 2,644 | 1.9% |
| Indiana | 3,422 | 2.4% | 3,232 | 2.3% |
| Colorado | 2,723 | 1.9% | 3,010 | 2.2% |
| All Other States | 21,409 | 14.9% | 23,105 | 16.7% |
| Total | $ 143,834 | 100.0% | $ 138,019 | 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.

### Our Competitive Strengths

We believe the following competitive strengths have allowed us to grow our business:

- *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 or produce.
- *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 have been 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 2023, our top four independent agencies accounted for approximately 35% of our gross written premiums in our commercial lines, and our top four independent agencies accounted for approximately 62% of our gross written premiums in our personal lines. 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.

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.

In addition to marketing to individual agents, CIS reviews specific opportunities to write select business on a direct basis.

**Underwriting**

Historically, we have been focused on underwriting profitability and effective enterprise risk management.

Our underwriting philosophy for our specialty commercial risks in the hospitality industry has been 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 have been 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, Oklahoma, 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 29 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 9 ~ *Reinsurance.*

### Loss Reserve Development

The following table presents the development of our loss and loss adjustment expenses ("LAE") reserves from 2013 through 2023, net of reinsurance recoverables (dollars in thousands).

| | Year Ended December 31, | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 (1) | 2023 (1) |
| Net liability for losses and loss expenses | $ 24,956 | $ 28,307 | $ 30,017 | $ 47,993 | $ 67,830 | $ 63,122 | $ 84,667 | $ 87,052 | $ 98,741 | $ 82,888 | $ 103,805 |
| Liability re-estimated as of: | | | | | | | | | | | |
| One year later | 23,763 | 29,321 | 40,239 | 57,452 | 71,186 | 79,351 | 100,261 | 106,482 | 123,668 | 100,698 | |
| Two years later | 25,521 | 33,274 | 52,321 | 60,453 | 87,536 | 94,786 | 118,116 | 129,665 | 144,116 | | |
| Three years later | 26,560 | 38,569 | 58,251 | 69,833 | 95,367 | 108,022 | 137,327 | 143,307 | | | |
| Four years later | 27,784 | 40,822 | 62,185 | 74,381 | 102,335 | 117,607 | 146,027 | | | | |
| Five years later | 27,920 | 42,274 | 64,547 | 76,860 | 106,705 | 122,597 | | | | | |
| Six years later | 28,339 | 42,967 | 66,072 | 79,622 | 109,865 | | | | | | |
| Seven years later | 28,655 | 43,341 | 66,883 | 80,235 | | | | | | | |
| Eight years later | 28,880 | 43,771 | 67,020 | | | | | | | | |
| Nine years later | 29,487 | 43,712 | | | | | | | | | |
| Ten years later | 29,396 | | | | | | | | | | |
| Net cumulative redundancy (deficiency) | $ (4,440) | $ (15,405) | $ (37,003) | $ (32,242) | $ (42,035) | $ (59,475) | $ (61,360) | $ (56,255) | $ (45,375) | $ (17,810) | $ 103,805 |
| Cumulative amount of net liability paid as of: | | | | | | | | | | | |
| One year later | 13,245 | $ 16,091 | $ 20,200 | $ 29,533 | $ 44,521 | $ 29,520 | $ 40,244 | $ 39,187 | $ 51,129 | $ 57,963 | |
| Two years later | 19,711 | 24,060 | 35,972 | 56,962 | 62,369 | 57,864 | 70,478 | 79,965 | 95,765 | | |
| Three years later | 23,241 | 32,699 | 50,676 | 61,168 | 77,409 | 78,861 | 103,770 | 114,622 | | | |
| Four years later | 26,056 | 37,474 | 58,317 | 66,556 | 87,587 | 100,377 | 128,772 | | | | |
| Five years later | 27,217 | 40,438 | 61,349 | 70,945 | 99,544 | 114,346 | | | | | |
| Six years later | 27,780 | 41,979 | 63,814 | 76,563 | 106,535 | | | | | | |
| Seven years later | 28,384 | 42,428 | 65,654 | 78,821 | | | | | | | |
| Eight years later | 28,555 | 43,025 | 66,238 | | | | | | | | |
| Nine years later | 29,199 | 43,148 | | | | | | | | | |
| Ten years later | 29,237 | | | | | | | | | | |
| Gross liability-end of year | 28,909 | 31,532 | 35,423 | 54,651 | 87,896 | 92,807 | 107,246 | 111,270 | 139,085 | 165,539 | 174,612 |
| Reinsurance recoverable on unpaid losses | 3,952 | 3,225 | 5,405 | 6,658 | 20,066 | 29,685 | 22,579 | 24,218 | 40,344 | 82,651 | 70,807 |
| Net liability-end of year | 24,957 | 28,307 | 30,018 | 47,993 | 67,830 | 63,122 | 84,667 | 87,052 | 98,741 | 82,888 | 103,805 |
| Gross liability re-estimated - latest | 35,911 | 53,611 | 85,551 | 115,849 | 176,969 | 182,121 | 186,956 | 186,015 | 204,735 | 200,159 | |
| Reinsurance recoverable on unpaid losses re-estimated - latest | 6,515 | 9,899 | 18,530 | 35,613 | 67,104 | 59,524 | 40,929 | 42,708 | 60,619 | 99,460 | |
| Net liability re-estimated - latest | 29,396 | 43,712 | 67,021 | 80,236 | 109,865 | 122,597 | 146,027 | 143,307 | 144,116 | 100,699 | |
| Gross cumulative redundancy (deficiency) | $ (7,002) | $ (22,079) | $ (50,128) | $ (61,198) | $ (89,073) | $ (89,314) | $ (79,710) | $ (74,745) | $ (65,650) | $ (34,620) | |

(1) The 2023 and 2022 column includes $10.9 million and $25.9 million of reinsurance recoverables from the loss portfolio transfer (“LPT”), respectively. 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 8 ~ *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, 2023 and 2022.

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, 2023 and 2022, 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 12 ~ *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, 2023, we had 94 employees. All of our employees were full-time as of December 31, 2023. 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. 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**

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| 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) | Adjusted operating income (loss) is a non-GAAP measure. Adjusted operating income (loss) represents net income (loss) excluding net realized investment gains (losses), change in fair value of equity securities, the gain from sale of renewal rights, the gain from VSRM Transaction, the loss portfolio transfer risk fee and other gains (losses). |
| Adjusted operating income (loss), per share | Adjusted operating income (loss) per share is a non-GAAP measure. Adjusted operating income (loss) on a per share represents the net income (loss) allocable to common shareholders excluding net realized investment gains (losses) per share, change in fair value of equity securities per share, the gain from sale of renewal rights per share, the gain from VSRM Transaction per share, the loss portfolio transfer risk fee per share and other gains (losses) per share. |
| 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, which are exclusive of any IBNR estimated reserves. |

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| 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. |
| 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. |

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| 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

***We may not be able to extend or repay our indebtedness owed to our secured lenders, which would have a material adverse effect on our financial condition and ability to continue as a going concern.***

If we are unable to service or repay these obligations at maturity and we are otherwise unable to extend the maturity dates or refinance these obligations, we would be in default. We cannot provide any assurances that we will be able to raise the necessary amount of capital to service these obligations. Upon a default, our secured lenders would have the right to exercise their rights and remedies to collect, which would include foreclosing on our assets. Accordingly, a default would have a material adverse effect on our business, and we would likely be forced to seek bankruptcy protection.

Our various loan agreements contain financial and non-financial covenants and provisions providing for cross-default. The evaluation of compliance with these provisions is subject to interpretation and the exercise of judgment.

***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 or preferred 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.

***There may be limited capacity from third party insurers to support the business produce by our MGA.***

As discussed in Item 1 ~ *Business*, the Company is making a strategic shift wherein our Insurance Company Subsidiaries will underwrite significantly less business. The Company's earned premium and investment income revenues will be substantially replaced with commission revenue generated by CIS, our MGA, producing premiums for third-party insurers. We cannot assure that we will be able to locate third party insurers to underwrite the business our MGA can produce. The failure to obtain sufficient third party underwriting capacity 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 2023, six independent agencies accounted for approximately 40% of our gross written premiums in our commercial lines, and four independent agencies, accounted for approximately 62% 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. 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 chief executive officer, Nicholas J. 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, 2023, the Company had $17.9 million of 9.75% public senior unsecured notes outstanding and $9.8 million of senior secured notes outstanding. The Company's line of credit matured on December 1, 2022, and was not renewed. See Note 10 ~ *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.

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. For example, the senior secured 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.

As of December 31, 2023, the Company was not in compliance with the tangible net worth, dividend paying capacity, risk-based capital and consolidated debt to capital covenants on its senior secured notes. On March 27, 2024, the holders of the senior secured notes waived the December 31, 2023 covenants and modified the minimum requirements of the financial debt covenants beginning with the first quarter ending March 31, 2024. Management expects to be in compliance with all debt covenants in future periods.

***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. 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.

As of December 31, 2023, CIC fell within the Company Action Level and WPIC fell within the Regulatory Action Level of the RBC formula. WPIC also fell below two other regulatory thresholds which are necessary to stay in compliance. Management is required to provide a plan to its domiciliary regulator that shows how the Companies will get above the minimum level requirements. Management believes that the planned reduction in premium anticipated by a strategic shift to use third-party insurers for substantially all of its commercial lines business will be sufficient to bring the Companies back into compliance by December 31, 2024. Management expects to substantially cease all writings in WPIC by the end of the second quarter of 2024. For more information about Management's strategic shift to non-risk bearing revenue, see Item 1 ~ *Business* and Item 7 ~ *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

***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 an adverse effect on our business, financial condition and operating results.***

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).

On March 25, 2024, Kroll downgraded the financial strength ratings of CIC and WPIC. Kroll has given CIC an insurance financial strength rating of BB- with a negative outlook. Kroll has given WPIC an insurance financial strength rating of B with a negative outlook. A BB- and a B rating indicates that the insurer's financial condition is low quality. Concurrently, the Company withdrew its participation in the rating process, and shall be non-rated by Kroll going forward.

On March 14, 2024, A.M. Best downgraded the financial strength ratings of CIC and WPIC to C. A rating of C means A.M. Best considers both companies to have a "weak" ability to meet ongoing financial obligations. Concurrently, the Company withdrew its participation in the rating process, and shall be non-rated by A.M. Best going forward.

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. The recent downgrade and withdrawal of our rating could cause our current and future agents, retail brokers and insureds to choose other, more highly-rated competitors and could also increase the cost or reduce the availability of reinsurance to us. Furthermore, these recent developments could severely limit or prevent us from writing new and renewal insurance contracts and may 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.

***Our common stock may be delisted from The Nasdaq Stock Market if we cannot maintain compliance with Nasdaq's continued listing requirements.***

On October 23, 2023, the Company received a letter from the Listing Qualifications Department of The Nasdaq Stock Market LLC ("Nasdaq") indicating that, based upon the closing bid price of the Company's common stock for the last 30 consecutive business days and its number of publicly held shares, the Company no longer met Nasdaq Listing Rule 5450(b)(1)(C), which requires listed companies to maintain a minimum market value of publicly held shares ("MVPHS") of at least $5.0 million.

Nasdaq Listing Rule 5810(c)(3)(D) provides a compliance period of 180 calendar days, or until April 22, 2024 (the "First Compliance Date"), in which to regain compliance with this requirement. In March 2024, we applied to transfer the listing of our common stock from the Nasdaq Global Market to the Nasdaq Capital Market. Nasdaq approved our application effective on March 19, 2024, and the listing of our common stock transferred to the Nasdaq Capital Market effective as of the opening of business on March 21, 2024. Our common stock is currently listed on The Nasdaq Capital Market.

If we fail to satisfy the continued listing requirements of The Nasdaq Capital Market, The Nasdaq Capital Market may take steps to delist our common stock, which could have a materially adverse effect on our ability to raise additional funds as well as the price and liquidity of our common stock. Such a delisting would likely have a negative effect on the price of our common stock and would impair our stockholders' ability to sell or purchase our common stock when they wish to do so. In the event of a delisting, we can provide no assurance that any action taken by us to restore compliance with listing requirements would allow our common stock to become listed again, stabilize the market price or improve the liquidity of our common stock, prevent our common stock from dropping below the Nasdaq minimum bid price requirement, or prevent future non-compliance with The Nasdaq Capital Market's listing requirements.

***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.

Additionally, since the Company is no longer rated by Kroll or A.M. Best, following the Company’s withdrawal from the rating process, the absence of credit ratings on our outstanding securities could impact our ability to obtain additional debt or hybrid capital at reasonable terms or at all. Credit ratings are an opinion by third parties of our financial strength and ability to meet ongoing obligations to our future policyholders. The lack of a credit rating may make it difficult for investors to evaluate an investment in our securities and for us to raise additional capital in the future on acceptable terms or at all.

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 of directors ("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, 2023, our executive officers, directors, 5% shareholders and their affiliates owned approximately 71.7% 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. 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 New Public Notes and the Senior Secured 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 New Public Notes are currently listed on Nasdaq, the trading market for the New Public Notes may be limited, which could affect the market price of the New Public 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 New Public 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 1C. CYBERSECURITY

Identifying, assessing and managing cybersecurity risks is an important component of Conifer's overall enterprise risk management program. As with the management of risks generally, given our holding company structure, the management of cybersecurity risks involves coordination between the Company and its consolidated subsidiaries.

The Company and each of its consolidated subsidiaries are responsible for developing a cybersecurity program appropriate for their respective businesses. The design of these cybersecurity programs is informed by the Center for Internet Security Critical Security Controls framework ("CISCSC"). This does not imply that these programs meet all specifications of CISCSC, but rather that we use them as a guide to help us identify, assess and manage cybersecurity risks relevant to our business. The cybersecurity programs developed by the Company and its consolidated subsidiaries include, among other things, (i) advanced threat protection and detection systems; (ii) vulnerability scanning and testing of network defenses; (iii) user authentication, role-based access, and privileged access management; (iv) data encryption, loss prevention, backup and recovery mechanisms; (v) employee training; (vi) disaster recovery testing and (vii) security assessments of third-party service providers.

Our cybersecurity risk management program is part of our overall enterprise risk management program, and shares common methodologies, reporting channels and governance processes that apply across the enterprise risk management program to other legal, compliance, strategic, operational, and financial risk areas.

We have not identified risks from known cybersecurity threats, including as a result of any prior cybersecurity incidents in the past three fiscal years, that have materially affected or are reasonably likely to materially affect us, including our operations, business strategy, results of operations, or financial condition.

<u>Cybersecurity Governance</u>

Our Board considers cybersecurity risk as part of its risk oversight function and has delegated to the Audit Committee oversight of cybersecurity and other information technology risks. The Audit Committee oversees management's implementation of our cybersecurity risk management program.

Our management team, including our Chief Information Officer, is responsible for assessing and managing our material risks from cybersecurity threats.

## ITEM 2. PROPERTIES

We lease office space in Troy, Michigan, where our principal executive office is located. We also lease offices in Southfield, Michigan; 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

**Transfer Agent & Registrar**
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48 Wall Street
New York, NY 10005

**Corporate Counsel**
Honigman, LLP
660 Woodward Avenue
2290 First National Building
Detroit, MI 48226-3506

### Shareholder Relations and Form 10-K

A copy of our 2023 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.

### Dividend Policy

Neither Michigan law nor our amended and restated articles of incorporation requires our Board 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 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.

### Shareholders of Record

Our common stock is traded on The Nasdaq Capital Market under the symbol "CNFR." As of April 1, 2024, there were 26 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 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, 2023 related to the stock repurchase program. For the year ended December 31, 2023, the Company repurchased 1,968 shares of stock valued at approximately $3,000 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**

On December 20, 2023 (the “Initial Issue Date”), the Company issued $6.0 million of its newly designated Series A Preferred Stock (the "Series A Preferred Stock"), no par value, through a private placement of 1,000 shares of Series A Preferred Stock priced at $6,000 per share that matures on June 30, 2026 (the “Maturity Date”). The Series A Preferred Stock was sold to Clarkston 91 West LLC (the "Purchaser"), an entity affiliated with Gerald and Jeffrey Hakala, members of the Board of the Company. The sale of the Series A Preferred Stock was not registered under the Securities Act of 1933, as amended (the “Securities Act”), in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act and certain rules and regulations promulgated thereunder. The Series A Preferred Stock shall only be convertible for shares of the Company’s common stock, no par value, at the Maturity Date.

On the Maturity Date, each outstanding share of the Series A Preferred Stock, that has not otherwise been redeemed, shall automatically convert into 4,000 shares of the Company’s common stock, subject to adjustment for reverse and forward stock splits, stock dividends, stock combinations and other similar transactions of the common stock that occur after the Initial Issue Date (the “Automatic Conversion”). Upon the Automatic Conversion, the holder shall be deemed to be the holder of record of the Company’s common stock issuable upon such conversion.

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.

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. [Reserved]**

## 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").*

### Recent Developments and Significant Transactions

#### *Strategic Shift to Non Risk-Bearing Revenue*

Historically, our wholesale agency segment produced only a small portion of our gross written premiums. Beginning in 2024, our wholesale agency segment is being converted into a full managing general agency ("MGA") and is expected to produce almost 100% of the Company's gross written premiums. As a result of the Insurance Company Subsidiaries lacking sufficient capital to continue to underwrite the volume of business they have historically written, we plan to utilize third-party insurers and rely mostly on commission revenues in our MGA, CIS. Substantially all of the Company's commercial lines business will be directly written by third-party insurers with A.M. Best ratings of A- or better by the end of the second quarter of 2024. We expect to continue to underwrite the low-value homeowners business written in Texas and Midwest, however, we will be non-renewing all homeowners business written in Oklahoma by the end of the second half of 2024.

Utilizing third-party insurers as underwriters of our MGA-produced business will provide a much broader reach for our existing profitable programs and we expect this to result in the production of substantially more premium volume for the agency segment generating more commission revenue. This shift will significantly reduce revenues from earned premiums in the near term and investment income, over time, for the Insurance Company Subsidiaries. Cash from operating activities will shift from premiums and investment income to revenues from commissions. Over time, cash from operating activities will be reduced as losses are paid on existing loss reserves which will be offset by cash flows increasing from investing activities as we sell investments to fund the loss payments. We believe this strategic shift is the best path forward to profitability for the Company.

#### *Sale of Renewal Rights*

In September 2023, the Company sold the renewal rights of one of its insurance programs to another insurer for $2.5 million in cash in addition to also agreeing to participate in the Company's issuance of new public debt in September 2023, by purchasing $5.0 million of the new debt. The program renewal rights which were sold and transferred provided mostly liability insurance to the security guard and alarm installation industries ("Security Program"). The program produced gross earned premiums of $55.9 million and $41.0 million in 2023 and 2022, respectively. The buyer began writing new and renewal policies for this program as of September 15, 2023. On September 30, 2023, the Company ceded 100% of its gross unearned premium of $30.9 million in the program to the buyer in return for an $8.4 million ceding commission. As of December 31, 2023, the Company retained $24.1 million of net cash owed to the buyer under a funds withheld provision which is recorded as a liability on the Consolidated Balance Sheets. The funds withheld balance is expected to be paid out as premiums are earned and related claims are paid. The Company incurred $135,000 in expense related to this transaction. As part of this transaction, five claims staff transferred employment to the buyer. The buyer will handle all of the Company's run-off claims for this program under a related claims administration agreement.

The Company recognized a net gain of $2.3 million, which is reflected in Gain from sale of renewal rights on the Consolidated Statements of Operations. As a result of the sale of renewal rights, the Company is no longer providing liability insurance to the security guard and alarm installation industries.

#### *Debt Restructuring*

The Company repaid all of the $24.4 million of public senior secured notes, issued in 2018, that matured on September 30, 2023. The Company funded the repayment of the senior unsecured notes through a combination of newly issued public notes which totaled $6.7 million, as well as exchanging a portion of the maturing notes for new notes totaling $11.2 million. The Company also restructured its $10.5 million subordinated debt into senior secured notes, paying down $500,000 of the outstanding debt. The maturity of the new senior secured notes was shortened to five years from September 30, 2038, to September 30, 2028, and there are now required quarterly principal payments of $250,000 with the balance due upon maturity, in addition to a requirement that net proceeds from any asset sales be applied against the principal balance of the senior secured notes. See Note 10 ~ *Debt* for further details.

***VSRM Transaction***

Prior to October 13, 2022, CIS, formally known as 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, CIS purchased the other 50% of Venture from an individual for $9.7 million. Following this purchase, CIS 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 CIS' 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 CIS 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. See Note 4 ~ *Sale of Certain Agency Business* for further *details*.

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.

### *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, 2023, the Company has recorded losses through the $5.5 million corridor and $9.1 million 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, totaling $7.6 million, and $13.6 million of funds withheld. Cash used to fund the transaction was generated from the existing investment portfolios held by CIC and WPIC.

### *A.M. Best and Kroll*

On March 25, 2024, Kroll downgraded the financial strength ratings of CIC and WPIC. Kroll has given CIC an insurance financial strength rating of BB- with a negative outlook. Kroll has given WPIC an insurance financial strength rating of B with a negative outlook. A BB- and a B rating indicates that the insurer's financial condition is low quality. Concurrently, the Company withdrew its participation in the rating process, and shall be non-rated by Kroll going forward.

On March 14, 2024, A.M. Best downgraded the financial strength ratings of CIC and WPIC to C. A rating of C means A.M. Best considers both companies to have a "weak" ability to meet ongoing financial obligations. Concurrently, the Company withdrew its participation in the rating process, and shall be non-rated by A.M. Best going forward.

## 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. As a result of the sale of certain agency business on June 30, 2021, more recently our agency segment was not producing significant amounts of business for third party insurers and produced approximately 50% less business for the Insurance Company Subsidiaries. However, as discussed above, we expect the wholesale agency segment to become more prominent going forward as substantially all of our commercial lines business will be produced by the wholesale agency segment and underwritten by third-party insurers.

An advantage of using these third-party insurers is they will both have a minimum of an A- A.M. Best rating greatly improving our competitive edge in the marketplace.

As we transition to more of a MGA operation, revenues will be derived from commissions while insurance premiums and investment income will diminish over time. Cash flows from written premiums will decline quickly over the next two quarters and will be almost entirely comprised of the homeowners business by the third quarter of 2024. Concurrently, cash flows from commissions revenues will increase. As claims are settled, claim payments will be funded from the sale of investments within the Insurance Company Subsidiaries. Such claims payments will reduce cash flows provided by operating activities and will be offset by an increase in cash flows from investing activities as the investment portfolio is liquidated over time to fund the claim payments. Management may consider the sale of other assets to generate additional cash resources available to the Company.

There will be fewer claim payments as loss reserves run off. Other operating costs and commissions to retail agencies will fluctuate relatively similarly to the premiums produced by the MGA as they did when the premiums were written by the insurance companies. However, certain insurance company specific costs will decrease as the premium volume in the insurance company subsidiaries decreases. We expect that the net revenues generated in the MGA will provide the majority of the cash flows needed to cover operating and debt service costs going forward.

## 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, 2023 (dollars in thousands):

| Reserves | Commercial Lines | Personal Lines | Total Lines |
|---|---|---|---|
| Gross case reserves | $ 69,380 | $ 4,318 | $ 73,698 |
| Ceded case reserves | (19,001) | (1,826) | (20,827) |
| Net case reserves | 50,379 | 2,492 | 52,871 |
| | | | |
| Gross IBNR | 99,658 | 1,256 | 100,914 |
| Ceded IBNR | (49,980) | — | (49,980) |
| Net IBNR | 49,678 | 1,256 | 50,934 |
| | | | |
| Unpaid losses and loss adjustment expenses | 169,038 | 5,574 | 174,612 |
| Reinsurance recoverables on unpaid losses | (68,981) | (1,826) | (70,807) |
| Net unpaid losses and loss adjustment expenses | $ 100,057 | $ 3,748 | $ 103,805 |
| | | | |
| **Ratio of Gross IBNR to Unpaid losses and loss adjustment expenses** | 59.0% | 22.5% | 57.8% |

Included in the reinsurance recoverables were reinsurance recoverables from the LPT which were $10.9 million of reinsurance recoverables on case reserves. 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, 2023. 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 2023 reported pre-tax income and on net income and shareholders' equity at December 31, 2023. 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, 2023 | | | 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 2023 | $ 64,579 | $ 37,578 | 10.0% | $ (6,458) | $ (5,102) |
| Accident Year 2022 | 62,985 | 28,804 | 5.0% | (3,149) | (2,488) |
| Accident Year 2021 | 58,958 | 19,666 | 2.5% | (1,474) | (1,164) |
| Prior to 2021 Accident Years | — | 17,757 | —% | — | — |
| | | | | | |
| Decreased Ultimate Losses & LAE | | | | | |
| Accident Year 2023 | 64,579 | 37,578 | (10.0)% | 6,458 | 5,102 |
| Accident Year 2022 | 62,985 | 28,804 | (5.0)% | 3,149 | 2,488 |
| Accident Year 2021 | 58,958 | 19,666 | (2.5)% | 1,474 | 1,164 |
| Prior to 2021 Accident Years | — | 17,757 | —% | — | — |

(1) Represents amounts as of December 31, 2023.

(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 Credit Losses*

We carry debt securities classified as available-for-sale at fair value, and unrealized gains and losses on such securities, totaled $13.3 million as of December 31, 2023, 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 the equity securities and other equity investments for impairment during each reporting period.

We review available-for-sale debt securities for credit losses based on current expected credit loss methodology at the end of each reporting period. We do not have any securities classified as trading or held to maturity.

At each quarter-end, for available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through earnings.

For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectability of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Our outside investment managers assist us in this evaluation.

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, 2023, we have federal and state income tax net operating loss ("NOL") carryforwards of $80.8 million and $120.3 million, respectively. Of the NOL carryforwards, $78.2 million will expire in tax years 2030 through 2043 and $10.3 million will never expire. Of the federal NOL amount, $19.5 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 $28.0 million and $21.7 million has been recorded against the gross deferred tax assets as of December 31, 2023 and 2022, respectively, as the Company has recognized a three-year cumulative loss as of December 31, 2023 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 $28.0 million valuation allowance as of December 31, 2023 were reversed in the future, it would increase book value by $2.29 per share. The net deferred tax assets were zero as of December 31, 2023 and 2022.

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 (losses), change in fair value of equity securities, the gain from sale of renewal rights, the gain from VSRM Transaction, the loss portfolio transfer risk fee and other gains (losses). 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, | |
|---|---|---|
| | 2023 | 2022 |
| Net income (loss) | $ (25,904) | $ (10,681) |
| Less: | | |
| Net realized investment gains (losses) | (20) | (1,505) |
| Change in fair value of equity securities | 608 | 403 |
| Gain from VSRM Transaction | — | 8,810 |
| Loss portfolio transfer risk fee | — | (5,400) |
| Gain from sale of renewal rights | 2,335 | — |
| Other gains (losses) | — | 59 |
| Impact of income tax expense (benefit) from adjustments * | — | — |
| Adjusted operating income (loss) | $ (28,827) | $ (13,048) |
| | | |
| Weighted average common shares, diluted | 12,220,511 | 10,692,090 |
| | | |
| Diluted income (loss) per common share: | | |
| Net income (loss) | $ (2.12) | $ (1.00) |
| Less: | | |
| Net realized investment gains (losses) | — | (0.14) |
| Change in fair value of equity securities | 0.05 | 0.04 |
| Gain from VSRM Transaction | — | 0.82 |
| Loss portfolio transfer risk fee | — | (0.51) |
| Gain from sale of renewal rights | 0.19 | — |
| Other gains (losses) | — | 0.01 |
| Impact of income tax expense (benefit) from adjustments * | — | — |
| Adjusted operating income (loss) per share | $ (2.36) | $ (1.22) |

* The Company has recorded a full valuation allowance against its deferred tax assets as of December 31, 2023 and 2022. As a result, there were no taxable impacts to adjusted operating income from the adjustments to net income (loss) in the table above after taking into account the use of NOLs and the change in the valuation allowance.

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 $5.8 million, or 4.2%, to $143.9 million in 2023, compared to $138.0 million in 2022. This was primarily due to increased gross written premiums in our personal lines of business from increases in exposure units and, to a lesser degree, increased rates. Our personal lines gross written premium increased $15.6 million, or 73.8%, to $36.8 million in 2023, compared to $21.2 million in 2022.

The Company reported a net loss of $25.9 million, or $2.12 per share, in 2023, compared to a net loss of $10.7 million, or $1.00 per share, in 2022.

Adjusted operating loss, a non-GAAP measure, was $28.8 million, or $2.36 per share, in 2023, compared to $13.0 million, or $1.22 per share, in 2022.

The 2023 results included a non-operating net gain of $2.3 million from the sale of its Security Program. See Note 2 ~ *Sale of Renewal Rights* for further detail.

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 NOL carryforwards 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. 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, 2023, the Company has recorded losses through the $5.5 million corridor and $9.1 million 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.

**Results of Operations - 2023 Compared to 2022**

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

**Summary Operating Results**

| | Years Ended December 31, 2023 | 2022 | $ Change | % Change |
|---|---|---|---|---|
| Gross written premiums | $ 143,834 | $ 138,019 | $ 5,815 | 4.2% |
| Net written premiums | $ 68,688 | $ 91,232 | $ (22,544) | (24.7%) |
| Net earned premiums | $ 83,935 | $ 96,711 | $ (12,776) | (13.2%) |
| Agency commission income | 5,680 | 1,414 | 4,266 | * |
| Other income | 694 | 1,354 | (660) | (48.7%) |
| Losses and loss adjustment expenses, net | 82,413 | 81,440 | 973 | 1.2% |
| Policy acquisition costs | 20,892 | 22,179 | (1,287) | (5.8%) |
| Operating expenses | 17,891 | 18,789 | (898) | (4.8%) |
| Loss portfolio transfer risk fee | — | 5,400 | (5,400) | * |
| Underwriting gain (loss) | (30,887) | (28,329) | (2,558) | (9.0%) |
| Net investment income | 5,526 | 3,043 | 2,483 | 81.6% |
| Net realized investment gains (losses) | (20) | (1,505) | 1,485 | * |
| Change in fair value of equity securities | 608 | 403 | 205 | * |
| Gain from sale of renewal rights | 2,335 | — | 2,335 | * |
| Gain from VSRM Transaction | — | 8,810 | (8,810) | * |
| Other gains (losses) | — | 59 | (59) | * |
| Interest expense | 3,206 | 2,971 | 235 | 7.9% |
| Income (loss) before income taxes | (25,644) | (20,490) | (5,154) | * |
| Equity earnings in Affiliate, net of tax | (251) | 368 | (619) | (168.2%) |
| Income tax expense | 9 | (9,441) | 9,450 | * |
| Net income (loss) | $ (25,904) | $ (10,681) | $ (15,223) | * |
| Underwriting Ratios: | | | | |
| Loss ratio (1) | 97.8% | 83.9% | | |
| Expense ratio (2) | 37.1% | 38.4% | | |
| Combined ratio (3) | 134.9% | 122.3% | | |

(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, 2023 and 2022 (dollars in thousands):

**Summary of Premium Revenue**

| | Years Ended December 31, 2023 | Years Ended December 31, 2022 | $ Change | % Change |
|---|---|---|---|---|
| Gross written premiums | | | | |
| Commercial lines | $ 107,078 | $ 116,868 | $ (9,790) | (8.4%) |
| Personal lines | 36,756 | 21,151 | 15,605 | 73.8% |
| Total | $ 143,834 | $ 138,019 | $ 5,815 | 4.2% |
| | | | | |
| Net written premiums | | | | |
| Commercial lines | $ 36,580 | $ 72,318 | $ (35,738) | (49.4%) |
| Personal lines | 32,108 | 18,914 | 13,194 | 69.8% |
| Total | $ 68,688 | $ 91,232 | $ (22,544) | (24.7%) |
| | | | | |
| Net Earned premiums | | | | |
| Commercial lines | $ 59,221 | $ 80,823 | $ (21,602) | (26.7%) |
| Personal lines | 24,714 | 15,888 | 8,826 | 55.6% |
| Total | $ 83,935 | $ 96,711 | $ (12,776) | (13.2%) |

Gross written premiums increased by $5.8 million, or 4.2%, to $143.8 million for the year ended December 31, 2023, compared to $138.0 million for the year ended December 31, 2022.

Commercial lines gross written premiums decreased $9.8 million, or 8.4%, to $107.1 million, for the year ended December 31, 2023, compared to $116.9 million for the year ended December 31, 2022. Gross written premiums for our hospitality programs decreased by $5.5 million, or 20.5%, to $21.5 million for the year ended December 31, 2023, compared to $27.0 million for the year ended December 31, 2022. Gross written premiums for our small business programs decreased by $4.3 million, or 4.7%, to $85.6 million, for the year ended December 31, 2023, compared to $89.9 million for the year ended December 31, 2022. In both the hospitality and small business programs, the reductions in premiums were due to the Company's concerted efforts to reduce writings in individual lines of business and jurisdictions that were the least profitable.

Personal lines gross written premiums increased $15.6 million, or 73.8%, to $36.8 million for the year ended December 31, 2023, compared to $21.2 million for the year ended December 31, 2022. The increase was largely driven by increased policy counts in Texas and Oklahoma. The Company is expected to discontinue writing in Oklahoma in the second quarter of 2024. Oklahoma homeowners represented $17.1 million of the Company's gross written premium in 2023. Texas homeowners is expected to continue to grow.

Net written premiums decreased $22.5 million, or 24.7%, to $68.7 million, for the year ended December 31, 2023, compared to $91.2 million for the year ended December 31, 2022.

As part of the Security Program transaction, the Company ceded 100% of its gross unearned premium related to the program as of September 30, 2023. This increased the Company's net ceded written premium by $18.8 million in its commercial lines of business for the year ended December 31, 2023. Commercial lines net written premiums further decreased due to more ceded premiums as a result of a higher reinsurance cost and the Company entered into a new quota share reinsurance agreement, effective January 1, 2023. The new 50% quota share treaty applies to a subset of our commercial business that represents approximately 12.0% of our gross written premiums for the year ended December 31, 2023. The Company ceded $10.3 million of written premium related to this quota share reinsurance agreement for the twelve months ended December 31, 2023.

***Agency Commission Income***

Commission income is received by the Company's insurance agency for writing policies for third-party insurance companies. Agency commission income increased by $4.3 million to $5.7 million for the year ended December 31, 2023, compared to $1.4 million for the year ended December 31, 2022. The increase was due to the Company's Security Program transaction in September of 2023. As part of the arrangement with the buyer, our managing general agency, CIS, is appointed as the producer for this business, for approximately a two-year transition period. During this time our wholesale agency segment will receive a commission from the buyer, and pay a sub-producer substantially the same commission. This will result in higher consolidated other income for the Company. Policy acquisition costs will remain substantially the same amount for the period of this agreement. In 2023, the Company recorded $5.2 million of commission revenue and $5.2 million of commission expense as a result of this arrangement.

***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 decreased by $660,000, or 48.7%, to $694,000 for the year ended December 31, 2023, compared to $1.4 million for the year ended December 31, 2022. The decrease in other income was mostly related to the homeowners business that was originally produced within the consolidated Company during 2022. This homeowners business was contributed to SSU in December of 2022, resulting in a significant decline in other income during 2023.

***Losses and Loss Adjustment Expenses***

The tables below detail our losses and LAE and loss ratios for the years ended December 31, 2023 and 2022 (dollars in thousands).

| Year Ended December 31, 2023 | Commercial Lines | Personal Lines | Total |
|---|---|---|---|
| Accident year net losses and LAE | $ 43,622 | $ 20,958 | $ 64,580 |
| Net (favorable) adverse development | 19,206 | (1,373) | 17,833 |
| Calendar year net loss and LAE | $ 62,828 | $ 19,585 | $ 82,413 |
| | | | |
| Accident year loss ratio | 73.4% | 84.5% | 76.6% |
| Net (favorable) adverse development | 32.3% | (5.6)% | 21.2% |
| Calendar year loss ratio | 105.7% | 78.9% | 97.8% |

| 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% |

Net losses and LAE increased by $973,000, or 1.2%, to $82.4 million for the year ended December 31, 2023, compared to $81.4 million for the year ended December 31, 2022. The calendar year loss ratios were 97.8% and 83.9% for the years ended December 31, 2023 and 2022, respectively. The increase in losses was attributable to both higher current accident year losses as well as reserve strengthening on prior year accident years.

Current accident year losses were higher mostly as a result of significant storm activity in the Oklahoma homeowners line in the spring and early summer of 2023. Commercial lines current accident year losses were lower mostly due to an improved mix of business in 2023 as compared to prior years. The Company's quick service restaurant program, which generated large losses in prior years and $2.7 million of accident year losses in 2022, only generated $270,000 of accident year losses in 2023. We would expect no more accident year losses from the quick service restaurant program going forward as the premiums were fully earned out as of December 31, 2023. The sale of the Security Program included ceding 100% of the unearned premiums on this program as of September 30, 2023, resulting in a significantly reduced amount of accident year losses for this program in the fourth quarter of 2023. This program represented 35.3% of the Company's net earned premiums for the year-to-date period ending as of September 30, 2023, and zero percent in the fourth quarter of 2023.

The Company experienced $19.2 million of adverse development for the year ended December 31, 2023, related to the Company's commercial lines of business, while the Company experienced $1.4 million of favorable development in its personal lines of business.

Of the $19.2 million of adverse development for the Company's commercial lines for year ended December 31, 2023, $7.2 million was related to accident year 2022, $6.9 million was related to accident year 2021, and $4.9 million was related to accident year 2020 and $173,000 was 2019 and prior years. The development came primarily from commercial liability lines of business particularly in the longer tail lines of business, as a result of additional loss emergence primarily from the Security Program which represented 58% of the adverse development while the remainder was substantially in hospitality, most notably the quick service restaurant program. Both the Security Program and the quick service restaurant program are no longer written by the Company. As a result of this loss emergence, the Company increased its expected loss ratio selections on both prior accident years as well as the current accident year, resulting in increases to our carried loss reserves.

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.

***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, | |
|---|---|---|
| | 2023 | 2022 |
| Commercial Lines | | |
| Policy acquisition costs | 15.3% | 21.8% |
| Operating expenses | 20.2% | 16.1% |
| Total | 35.5% | 37.9% |
| Personal Lines | | |
| Policy acquisition costs | 26.8% | 28.8% |
| Operating expenses | 13.9% | 12.2% |
| Total | 40.7% | 41.0% |
| Total Underwriting | | |
| Policy acquisition costs | 18.8% | 23.0% |
| Operating expenses | 18.3% | 15.4% |
| Total | 37.1% | 38.4% |

Our expense ratio decreased by 1.3% to 37.1% for the year ended December 31, 2023, as compared to the same period in 2022. The decrease was driven by a reduction in the policy acquisition costs ratio and was partially offset by an increase in the operating expense ratio.

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 4.2%, from 23.0% in 2022, to 18.8% in 2023. The decrease was primarily related to additional ceding commissions, which reduces commission expense, as a result of the new quota share reinsurance treaty 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 2.9%, from 15.4% in 2022, to 18.3% in 2023. The operating expense ratios were higher primarily due to increased reinsurance costs due to the new quota share reinsurance treaty mentioned above, which lowered net earned premiums.

***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, 2023 and 2022 (dollars in thousands):

**Underwriting Gain (Loss)**

| | Years Ended December 31, 2023 | Years Ended December 31, 2022 | Change |
|---|---|---|---|
| Commercial Lines | $ (24,512) | $ (25,845) | $ 1,333 |
| Personal Lines | (4,882) | (1,248) | $ (3,634) |
| Total Underwriting | (29,394) | (27,093) | (2,301) |
| Wholesale Agency | (495) | (553) | 58 |
| Corporate | (1,067) | (921) | (146) |
| Eliminations | 69 | 238 | (169) |
| Total underwriting income (loss) | $ (30,887) | $ (28,329) | $ (2,558) |

***Investment Income***

Net investment income increased by $2.5 million, or 81.6%, to $5.5 million for the year ended December 31, 2023, compared to $3.0 million for the year ended December 31, 2022. This increase was due to an increase in interest income in our debt securities due to higher interest rates in 2023. Average invested assets during 2023 were $141.7 million compared to $160.1 million for the same period in 2022. The investment portfolio was comprised of 84.1% debt securities, 1.6% equity securities, and 14.3`% short-term investments as of December 31, 2023. 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 debt securities portfolio had an average credit quality was AA+ at December 31, 2023 and 2022, respectively. The portfolio produced a tax-equivalent book yield of 3.3% and 2.3% for the years ended December 31, 2023 and 2022, respectively. The option adjusted duration of the debt securities portfolio was 2.9 years and 3.5 years at December 31, 2023 and 2022, respectively.

***Realized Investment Gains (Losses)***

Net realized investment losses were $20,000 during 2023, compared to $1.5 million of losses during 2022. The Company repositioned most of its equity portfolio in 2022, and had minimal activity related to selling equity securities in 2023.

***Interest Expense and Preferred Dividend***

Interest expense was $3.2 million and $2.9 million for the years ended December 31, 2023 and 2022, respectively. The Company repaid $24.4 million of its 6.75% public senior unsecured notes (the "old notes") and issued $17.9 million of 9.75% public senior unsecured notes (the "new notes") during the third quarter of 2023, which mature on September 30, 2028. The Company also restructured its existing $10.5 million of 7.5% subordinated notes to $10.0 million of new 12.5% senior secured notes on September 30, 2023. The senior secured notes mature on September 30, 2028.

Interest expense includes the amortization of debt issuance costs relating to the new notes and the senior secured notes. The interest expense relating to the amortization of debt issuance costs on the new notes is $353,000 per annum over the 5-year life of the new notes. The interest expense relating to the amortization of debt issuance costs on the senior secured notes is $189,000 per annum over the 5-year life of the senior secured notes.

The increase in interest rates and debt issuance costs from the Company's new and restructured debt during the third quarter of 2023 contributed to the $235,000 increase in interest expense during 2023, compared to 2022.

We issued $25.3 million of the old notes in 2018, of which, $24.4 million was outstanding as of December 31, 2022, due to Company repurchases of the old notes during 2020. The Company did not repurchase any of the old notes in 2022. Interest expense includes the amortization of debt issuance costs relating to the old 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, which it drew upon and paid down at various times. This contributed to the interest expense in 2022. 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, and was not renewed.

The Company also pays a dividend on its $6.0 million preferred stock. Refer to Note 13 ~ Shareholders' Equity for further details. The preferred stock dividend is not an expense and does not impact net income. However, it does reduce net income allocable to common shareholders, earnings per share and cash flows. The Company declared $19,000 of dividends in 2023, and would expect to pay $630,000 for a full year at the current dividend rate, which is variable.

***Income Tax Expense***

For the year ended December 31, 2023, the Company reported $26,000 of current federal income tax benefit and $0 of current state income tax benefit. The Company reported a deferred tax benefit of $17,000 and $9.4 million for the years ended December 31, 2023 and 2022, respectively.

There is a $28.0 million valuation allowance against 100% of the net deferred tax assets at December 31, 2023. The valuation allowance was $21.7 million as of December 31, 2022. As of December 31, 2023, the Company has net operating loss carryforwards for federal income tax purposes of $80.8 million, of which $78.2 million expire in tax years 2030 through 2043 and $10.3 million will never expire. Of this amount, $19.5 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 $120.3 million, which expire in tax years 2024 through 2043.

## Liquidity and Capital Resources

***Sources and Uses of Funds***

At December 31, 2023, the Company had $32.0 million in cash, cash equivalents, and short-term investments, of which, $16.8 million was unrestricted. Our principal sources of funds have historically been 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.

In December 2023, the Company issued $6.0 million of Series A Preferred Stock. The Company intends to use the proceeds for working capital and general corporate purposes.

During 2024, based on the capital structure as of December 31, 2023, the Company will be required to make $1.0 million of principal payments on the senior secured notes, $630,000 of preferred dividend payments and approximately $3.3 million of interest on all of the Company's debt instruments, all of which are paid quarterly.

We conduct our business operations primarily through our Insurance Company Subsidiaries and our wholesale agency. Our ability to service debt, and pay administrative expenses is primarily reliant upon our intercompany service fees paid by the Insurance Company Subsidiaries and wholesale agency to the holding company for management, administrative, and information technology services provided to the Insurance Company Subsidiaries and the wholesale agency by the Parent

Company. Secondarily, the Parent Company may receive dividends from the Insurance Company Subsidiaries and wholesale agency; 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. We received $1.4 million in dividends paid from RCIC in 2023. No dividends were paid from our Insurance Company Subsidiaries in 2022, and do not anticipate any dividends being paid to us from our insurance subsidiaries during 2024 and 2025.

We contributed $400,000, $6.8 million and $11.4 million to our Insurance Company Subsidiaries in 2023 and 2022, respectively.

Largely due to reserve strengthening during 2023 in our Insurance Company Subsidiaries, we incurred a consolidated net loss of $25.9 million. We used cash from operation activities of $13.6 million and our overall equity at December 31, 2023 totaled $2.9 million. As a result of these factors, we were out of compliance with several of our debt covenants and obtained a waiver from our lender. The aforementioned factors have presented additional liquidity and capital challenges on the Company's financial condition.

Both Insurance Company Subsidiaries lack sufficient capital to continue to underwrite the volume of business they have historically written. As part of our strategic shift, going forward we plan to utilize third-party insurers and rely mostly on commission revenues in our managed general agency, CIS. Substantially all of our commercial lines business will be no longer be written by our insurance company subsidiaries by the end of the second quarter of 2024. However, we do plan to continue to write a limited amount of the personal lines on CIC. We do not expect to be writing any business in WPIC by the end of the second quarter of 2024.

As of the filing of this Form 10-K, the Insurance Company Subsidiaries are still the primary underwriters for the business produced by CIS and still the primary source of revenues and cash flows. The Insurance Company Subsidiaries are currently both required to provide an action plan with the state of domicile insurance regulator to remediate certain statutory capital and surplus regulatory deficiencies. If we do not remediate the regulatory deficiencies the insurance regulator could suspend or terminate the insurers' authority to write business. Also, A.M. Best and Kroll downgraded the financial strength ratings of both companies and we terminated the rating relationship. Therefore, neither company is currently rated by a nationally recognized statistical rating organization which can have an impact on the ability to market to policyholders. We believe that the Insurance Company Subsidiaries will both regain compliance with the state insurance regulators, however, as part of the strategic shift, we no longer expect significant revenues to be generated through them after the second quarter of 2024. These circumstances could jeopardize the ability of the Company to generate insurance underwriting revenues which could raise substantial doubt on our ability to meet our obligations as they become due.

To alleviate these concerns the Company is in the process of implementing the strategic shift mentioned above which will not require the use of either Insurance Company Subsidiary to generate the majority of the Company's revenues going forward. Rather, the Company will expect to generate the vast majority of its revenue from commissions from third-party insurers. In order to successfully implement the strategic shift the Company must have in place producer agreements with third-party insurers. Currently the Company has executed one producer agreement for approximately 25% of the existing commercial lines book of business and is expected to execute another producer agreement with a different third-party insurer for the remaining commercial lines business within a a short period of time of filing this Form 10-K. We expect to continue to underwrite the existing personal lines business within our Insurance Company Subsidiaries.

With these producer agreements in place the Company expects to be able to generate the needed revenues to meeting our obligations as they become due over the next twelve months. In the event there are delays in implementing the strategic shift or other uncertainties arise with respect to completion of our strategic shift during 2024, these events could have a negative effect on our liquidity and ability to satisfy our obligations as they become due. If the Company were to experience any such uncertainties, the Company believes it has alternative sources of liquidity available which are sufficient to cover any short-term needs as a result of any such uncertainties encountered. Management believes the current actions being executed to implement the planned strategic shift coupled with additional available sources of available liquidity, will be sufficient to enable the Company to meet its obligations for the foreseeable future.

Our outstanding public 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 in operating activities for the year ended December 31, 2023 was $13.6 million compared to $40.5 million for the same period in 2022. The $26.9 million decrease in cash used in operating activities was primarily due to a $35.1 million decrease in net losses paid, a $8.9 million decrease in acquisition costs paid on our underwriting business and a $1.0 million decrease in operating expenses paid. These decreases were offset by a $23.4 million decrease in net premiums collected during the year. Funds held under reinsurance agreements were $24.6 million and $11.0 million at December 31, 2023 and 2022, respectively. The impact of changes in funds held contributed $2.4 million to the decrease in cash used in operating activities during 2023.

Cash used in 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 and a $5.4 million risk fee paid. This decrease was offset by a $6.9 million decrease in the amount of acquisition costs paid during 2022 compared to 2021.

*Investing Activities.* Cash used in investing activities for the year ended December 31, 2023 was $272,000 compared to $56.5 million of cash provided by investing activities in 2022. The $56.8 million decrease in cash provided by investing activities over the prior year was driven by a $102.0 million decrease in proceeds from sales of investments, a $9.9 million decrease in proceeds from maturities and redemptions of investments and a $32.8 million decrease in proceeds from the sale of the agency business that occurred in 2022. These decreases were offset by an $83.4 million decrease in cash used for purchases of investments in 2023 compared to 2022.

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.

*Financing Activities.* Cash used in financing activities for the years ended December 31, 2023, was $3.2 million compared to $2.1 million of cash provided by financing activities for years ended December 31, 2022. The $5.3 million decrease was largely attributed to the Company paying down $13.9 million of its existing public debt that was due on September 30, 2023. This was offset by the Company borrowing an additional $6.7 million in debt and raising $6.0 million of preferred stock in December 2023, compared to $5.0 million of proceeds from common stock in 2022.

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.

***Outstanding Debt***

The Company issued $17.9 million of public senior unsecured notes ("New Public Notes") during the third quarter of 2023. The New Public Notes bear an interest rate of 9.75% per annum, payable quarterly at the end of March, June, September and December and mature on September 30, 2028. The Company may redeem the New Public Notes, in whole or in part, at face value at any time after September 30, 2025.

The Company paid down $500,000 of principal on its $10.5 million of subordinated notes on September 29, 2023. The Company then restructured its existing $10.0 million of subordinated notes to senior secured notes ("Senior Secured Notes") with its lender on September 30, 2023. The Senior Secured Notes mature on September 30, 2028, and bear an interest rate of 12.5% per annum. Interest is payable quarterly at the end of March, June, September, and December. Quarterly principal payments of $250,000 are required starting on December 31, 2023 through September 30, 2028. The Company may redeem the Senior Secured Notes, in whole or in part, for a call premium of $1.8 million less 22% of the interest payment amounts that were paid prior to the date of redemption. As of December 31, 2023, the Company was not in compliance with the tangible net worth, dividend paying capacity, risk-based capital and consolidated debt to capital covenants on its Senior Secured Notes. On March 27, 2024, the holders of the senior secured notes waived the December 31, 2023 covenants, and waived any future instances of non-compliance with the same covenants going forward through May 31, 2025. Management expects to be in compliance with all debt covenants in future periods.

As of December 31, 2023, the carrying value of the New Public Notes and Senior Secured Notes were offset by $1.7 million and $897,000 of capitalized debt issuance costs, respectively. The debt issuance costs are amortized through interest expense over the life of the loans. Refer to Note 10 ~ *Debt* for additional information regarding our outstanding debt.

The Company maintained a $10.0 million line of credit with a national bank 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.

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.

**Contractual Obligations and Commitments**

The following table is a summary of our contractual obligations and commitments as of December 31, 2023 (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 | $ 17,887 | $ — | $ — | $ 17,887 | $ — |
| Interest on senior unsecured notes | 8,284 | 1,744 | 3,488 | 3,052 | — |
| Senior secured notes | 9,750 | 1,000 | 2,000 | 6,750 | — |
| Interest on senior secured notes | 4,453 | 1,172 | 1,969 | 1,312 | — |
| Lease obligations | 1,302 | 274 | 460 | 390 | 178 |
| Unpaid loss and loss adjustment expense (1) | 174,612 | 50,948 | 68,901 | 37,081 | 17,682 |
| Purchase Obligations (2) | 1,020 | 360 | 660 | — | — |
| **Total** | $ 217,308 | $ 55,498 | $ 77,478 | $ 66,472 | $ 17,860 |

(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, 2023, CIC fell within the Company Action Level of the RBC formula and WPIC fell within the Regulatory Action Level of the RBC formula. WPIC also fell below two other regulatory thresholds which are necessary to stay in compliance. Management is required to provide a plan to its domiciliary regulator that shows how the Companies will get above the minimum level requirements. In the event the Companies do not regain compliance, the director may suspend, revoke, or limit the certificate of authority of the Companies. Management believes that the reduction in premium anticipated by the strategic shift to use third-party insurers for substantially all of its commercial lines business will be sufficient to bring the Companies back into compliance by December 31, 2024. Management expects to substantially cease all writings in WPIC by the end of the second quarter of 2024.

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.

## 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, 2023. 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, 2023 and 2022, the fair value of our investment portfolio, excluding cash and cash equivalents, was $146.0 million and $137.4 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 2.9 and 3.5 years as of December 31, 2023 and 2022, 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, 2023. 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, 2023** | **Estimated Fair Value** | **Estimated Change in Fair Value** | **Fair Value** | **Shareholders' Equity** |
| 200 basis point increase | 135,941 | $ (7,714) | (5.4)% | (267.0)% |
| 100 basis point increase | 139,647 | (4,008) | (2.8)% | (138.7)% |
| No change | 143,655 | — | — | — |
| 100 basis point decrease | 147,979 | 4,324 | 3.0% | 149.7% |
| 200 basis point decrease | 152,590 | 8,935 | 6.2% | 309.3% |

### *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, 2023 and 2022, the net amount due to the Company from reinsurers, including prepaid reinsurance, was $112.3 million and $99.6 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

None.

## 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, 2023. 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, 2023, 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, 2023 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

During the three months ended December 31, 2023, none of the Company's directors or Section 16 officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act or any "non-Rule 10b5-1 trading arrangement."

## ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

## 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 22, 2024 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.

**CONIFER HOLDINGS, INC. AND SUBSIDIARIES**

**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
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, 2023 and 2022; the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years ended December 31, 2023 and 2022; and the related notes (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, 2023 and 2022 and the results of its operations and its cash flows for the years ended December 31, 2023 and 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 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) relates 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 8 to the Financial Statements***

*Critical Audit Matter Description*

The Company's estimated liability for unpaid losses and loss adjustment expense (LAE) totaled $175 million at December 31, 2023. 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, 2023, 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, 2023 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 actuaries, 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 performed additional analysis over certain lines of business where historical development of losses could have a significant impact on the current estimate of unpaid losses.
- 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.

***Going Concern Analysis – Refer to Note 1 of the Financial Statements***

*Critical Audit Matter Description*

As described in Note 1 to the Company's consolidated financial statements, the Company has experienced continued net losses, negative operating cash flows, significant adverse claim development, and has breached multiple debt covenants (that have subsequently been waived through May 31, 2025). Management has developed cash flow projections based on management's plans which they believe will allow the Company to meet its obligations for twelve months from the date of issuance of the consolidated financial statements.

Auditing management's going concern analysis and the evaluation and disclosure of liquidity was challenging because of the subjectivity used by management when evaluating whether the Company will meet its obligations as they come due, which are based on significant future actions by management.

*How the Critical Audit Matter was Addressed in the Audit*

The primary procedures we performed to audit this critical audit matter included the following:

- We obtained an understanding and evaluated the design of management's internal controls over developing the Company's going concern analysis. We evaluated the design of controls over management's process to forecast financial results and liquidity for one year after the date the consolidated financial statements are issued, including management's review of significant assumptions and the completeness and accuracy of underlying data use in the forecast.

- To assess the Company's ability to forecast revenue, we compared historical revenue to actual results. We assessed the reasonableness of the Company's assumptions related to forecasted revenue, including expected premium volume in comparison to historical experience and other sources of future revenue and considered whether the assumptions were consistent with evidence obtained in other areas of the audit.

- We evaluated the sensitivity and impact of reasonably possible changes in the key assumptions and estimates, including management’s ability to execute a planned change in business strategy, potential uncertainty in timing of execution of such a transition in strategy, and management's projections of future claims expense, based on historical adverse development as well as other sources of liquidity available to the Company.

- We addressed whether management plans were considered probable of being implemented, and when considered with other potential sources of liquidity available to the Company, were considered sufficient to overcome the current liquidity challenges present.

- We also evaluated management's liquidity disclosures in the consolidated financial statements for accuracy and completeness.

/s/ Plante & Moran, PLLC

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

East Lansing, Michigan
April 1, 2024

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

| | December 31, 2023 | | December 31, 2022 | |
|---|---|---|---|---|
| **Assets** | | | | |
| Investment securities: | | | | |
| Debt securities, at fair value (amortized cost of $135,370 and $127,119, respectively) | $ | 122,113 | $ | 110,201 |
| Equity securities, at fair value (cost of $2,385 and $1,905, respectively) | | 2,354 | | 1,267 |
| Short-term investments, at fair value | | 20,838 | | 25,929 |
| Total investments | | 145,305 | | 137,397 |
| Cash and cash equivalents | | 11,125 | | 28,035 |
| Premiums and agents' balances receivable, net | | 29,369 | | 21,802 |
| Receivable from Affiliate | | 1,047 | | 1,261 |
| Reinsurance recoverables on unpaid losses | | 70,807 | | 82,651 |
| Reinsurance recoverables on paid losses | | 12,619 | | 6,653 |
| Prepaid reinsurance premiums | | 28,908 | | 16,399 |
| Deferred policy acquisition costs | | 6,285 | | 10,290 |
| Other assets | | 6,339 | | 7,862 |
| **Total assets** | $ | 311,804 | $ | 312,350 |
| **Liabilities and Shareholders' Equity** | | | | |
| **Liabilities:** | | | | |
| Unpaid losses and loss adjustment expenses | $ | 174,612 | $ | 165,539 |
| Unearned premiums | | 65,150 | | 67,887 |
| Reinsurance premiums payable | | 246 | | 6,144 |
| Debt | | 25,061 | | 33,876 |
| Funds held under reinsurance agreements | | 24,550 | | 11,084 |
| Premiums payable to other insureds | | 13,986 | | — |
| Accounts payable and accrued expenses | | 5,310 | | 8,870 |
| **Total liabilities** | | 308,915 | | 293,400 |
| Commitments and contingencies | | — | | — |
| **Shareholders' equity:** | | | | |
| Preferred stock, no par value (10,000,000 shares authorized; 1,000 and 0 issued and outstanding, respectively) | | 6,000 | | — |
| Common stock, no par value (100,000,000 shares authorized; 12,222,881 and 12,215,849 issued and outstanding, respectively) | | 98,100 | | 97,913 |
| Accumulated deficit | | (86,683) | | (60,760) |
| Accumulated other comprehensive income (loss) | | (14,528) | | (18,203) |
| **Total shareholders' equity** | | 2,889 | | 18,950 |
| **Total liabilities and shareholders' equity** | $ | 311,804 | $ | 312,350 |

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, 2023 | Year Ended December 31, 2022 |
|---|---|---|
| **Revenue and Other Income** | | |
| Gross earned premiums | $ 146,572 | $ 135,401 |
| Ceded earned premiums | (62,637) | (38,690) |
| Net earned premiums | 83,935 | 96,711 |
| Net investment income | 5,526 | 3,043 |
| Net realized investment gains (losses) | (20) | (1,505) |
| Change in fair value of equity securities | 608 | 403 |
| Gain from VSRM Transaction | — | 8,810 |
| Loss portfolio transfer risk fee | — | (5,400) |
| Gain from sale of renewal rights | 2,335 | — |
| Other gains (losses) | — | 59 |
| Agency commission income | 5,680 | 1,414 |
| Other income | 694 | 1,354 |
| Total revenue and other income | 98,758 | 104,889 |
| | | |
| **Expenses** | | |
| Losses and loss adjustment expenses, net | 82,413 | 81,440 |
| Policy acquisition costs | 20,892 | 22,179 |
| Operating expenses | 17,891 | 18,789 |
| Interest expense | 3,206 | 2,971 |
| Total expenses | 124,402 | 125,379 |
| | | |
| Income (loss) before income taxes | (25,644) | (20,490) |
| Equity earnings (losses) in Affiliate, net of tax | (251) | 368 |
| Income tax expense (benefit) | 9 | (9,441) |
| | | |
| Net income (loss) | $ (25,904) | $ (10,681) |
| Preferred stock dividends | 19 | — |
| **Net income (loss) allocable to common shareholders** | (25,885) | (10,681) |
| | | |
| **Earnings (loss) per common share, basic and diluted** | $ (2.12) | $ (1.00) |
| | | |
| **Weighted average common shares outstanding, basic and diluted** | 12,220,511 | 10,692,090 |

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, 2023 | Year Ended December 31, 2022 |
|---|---|---|
| **Net income (loss)** | $ (25,904) | $ (10,681) |
| **Other comprehensive income (loss), net of tax:** | | |
| Unrealized investment gains (losses): | | |
| Unrealized investment gains (losses) during the period | 3,624 | (16,024) |
| Income tax expense (benefit) | — | — |
| Unrealized investment gains (losses), net of tax | 3,624 | (16,024) |
| Less: reclassification adjustments to: | | |
| Net realized investment gains (losses) included in net income (loss) | (51) | 69 |
| Income tax expense (benefit) | — | — |
| Total reclassifications included in net income (loss), net of tax | (51) | 69 |
| **Other comprehensive income (loss)** | 3,675 | (16,093) |
| **Total comprehensive income (loss)** | $ (22,229) | $ (26,774) |

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, Preferred Stock | | No Par, Common Stock | | Retained Earnings (Accumulated deficit) | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | |
| **Balances at January 1, 2022** | **—** | **—** | **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** |
| Net income (loss) | — | — | — | — | (25,904) | — | (25,904) |
| Issuance of preferred stock | 1,000 | 6,000 | — | — | — | — | 6,000 |
| Repurchase of common stock | — | — | (1,968) | (3) | — | — | (3) |
| Cash dividends paid on preferred stock | — | — | — | — | (19) | — | (19) |
| Stock-based compensation expense | — | — | 9,000 | 190 | — | — | 190 |
| Other comprehensive income (loss) | — | — | — | — | — | 3,675 | 3,675 |
| **Balances at December 31, 2023** | **1,000** | **$6,000** | **12,222,881** | **$98,100** | **$ (86,683)** | **$ (14,528)** | **$ 2,889** |

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, 2023 | Year Ended December 31, 2022 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income (loss) | $ (25,904) | $ (10,681) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Gain from sale of renewal rights | (2,335) | — |
| Gain upon consolidation of VSRM (1) and sale of agency business | — | (10,052) |
| Depreciation and amortization | 545 | 417 |
| Amortization of bond premium and discount, net | (871) | 320 |
| Net realized investment (gains) losses | 20 | 1,505 |
| Change in fair value of equity securities | (608) | (403) |
| Loss on sale of fixed assets | — | 33 |
| Deferred Income tax expense | (17) | (9,396) |
| Stock-based compensation expenses | 190 | 211 |
| Equity (earnings) loss in Affiliate, net of tax | 251 | (368) |
| Other | — | 60 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in: | | |
| Premiums, agents' balances and other receivables | (7,549) | (594) |
| Reinsurance recoverables | 5,878 | (47,613) |
| Prepaid reinsurance premiums | (12,509) | (8,098) |
| Deferred policy acquisition costs | 4,005 | 1,977 |
| Other assets | 250 | (138) |
| Increase (decrease) in: | | |
| Unpaid losses and loss adjustment expenses | 9,073 | 26,454 |
| Unearned premiums | (2,737) | 2,618 |
| Funds held under reinsurance agreements | 13,450 | 11,100 |
| Reinsurance premiums payable | (5,898) | 826 |
| Premiums payable to other insureds | 13,986 | — |
| Accounts payable and other liabilities | (2,612) | 1,348 |
| Net cash provided by operating activities | (13,392) | (40,474) |
| **Cash Flows From Investing Activities** | | |
| Purchases of investments | (234,869) | (318,227) |
| Proceeds from maturities and redemptions of investments | 10,424 | 20,324 |
| Proceeds from sales of investments | 222,772 | 324,091 |
| Proceeds from sale of renewal rights | 2,335 | — |
| Proceeds from sale of agency business, net of $271 of cash disposed of (1) | — | 32,759 |
| Purchase of VSRM, net of $3,920 cash acquired (1) | — | (1,947) |
| Deconsolidation of SSU (1) | — | (497) |
| Contribution to SSU (1) | (934) | — |
| Net cash provided by (used in) investing activities | (272) | 56,503 |
| **Cash Flows From Financing Activities** | | |
| Proceeds received from issuance of shares of preferred stock | 6,000 | — |
| Proceeds received from issuance of shares of common stock | — | 5,000 |
| Proceeds from issuance of long-term debt | 6,727 | — |
| Repurchase of common stock | (3) | 10 |
| Borrowings under lines of credit | — | 19,500 |
| Repayment of lines of credit | — | (19,500) |
| Paydown of long-term debt | (13,971) | (2,917) |
| Debt issuance costs | (1,999) | — |
| Net cash provided by (used in) financing activities | (3,246) | 2,093 |
| Net increase (decrease) in cash | (16,910) | 18,122 |
| Cash at beginning of period | 28,035 | 9,913 |
| Cash at end of period | $ 11,125 | $ 28,035 |

(1) See Note 3 ~ *VSRM Transaction*

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

**CONIFER HOLDINGS, INC. AND SUBSIDIARIES**
**Supplemental Disclosure of Cash Flow Information**
**(dollars in thousands)**

| | Year Ended December 31, | |
|---|---|---|
| | **2023** | **2022** |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Interest paid | $ 3,077 | $ 2,979 |
| Income taxes paid (refunded), net | 1 | (11) |
| Exchanging of public senior unsecured notes | 11,160 | — |
| Preferred stock dividends declared but not paid at end of period | 19 | — |

## 1. Summary of Significant Accounting Policies

***Basis of Presentation and Management Representation***

The consolidated financial statements include accounts, after elimination of intercompany accounts and transactions, of Conifer Holdings, Inc. (the “Company” or “Conifer”), its wholly owned subsidiaries Conifer Insurance Company ("CIC"), Red Cedar Insurance Company ("RCIC"), White Pine Insurance Company ("WPIC"), Conifer Insurance Services ("CIS") formerly known as Sycamore Insurance Agency, Inc. ("Sycamore"), and VSRM, Inc. ("VSRM"). VSRM has substantially no operations following the contribution to SSU as described in Note 3 ~ *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." VSRM owns a 50% non-controlling interest in Sycamore Specialty Underwriters, LLC ("SSU" or "Affiliate").

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 9.5%. 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, 2023, the Company had a right-of-use asset of $960,000, and lease liabilities of $1.0 million. As of December 31, 2022, the Company had a right-of-use asset of $1.3 million, and lease liabilities of $1.3 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.

We review available-for-sale debt securities for credit losses based on current expected credit loss methodology at the end of each reporting period. We do not have any securities classified as trading or held to maturity.

At each quarter-end, for available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through earnings.

For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectability of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Our outside investment managers assist us in this evaluation.

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. There were no observable prices changes to the Company's other equity investments during 2023 or 2022.

***Credit Losses***

Effective January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which introduces a new process for recognizing credit losses on financial instruments based on expected credit losses. This new standard replaces the incurred loss methodology and the concept of Other-than-Temporary Impairment (or “OTTI”) with an expected credit loss methodology that is sometimes referred to as the Current Expected Credit Loss (CECL) methodology. The guidance applies to Conifer's reinsurance recoverables, premium receivable, and debt securities. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326, while prior period amounts continue to be reported in accordance with previously applicable U.S. GAAP. The adoption of ASC 326 did not have a material impact on the Company's financial statements.

***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 9 ~ *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 are 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, 2023, 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. 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, 2023 and 2022, 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.

***Agency Commission Income***

Agency commission income is comprised of commissions earned on policies where the Company has no exposure to underlying risk on the policies written. Agency commission income is earned at the time the policy is written.

***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 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.

In November *2023,* the FASB issued ASU 2023-07, *Segment Reporting (Topic 280).* This guidance is intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses, allowing financial statement users to better understand the components of a segment's profit or loss to assess potential future cash flows for each reportable segment and the entity as a whole. The amendments expand a public entity's segment disclosures by requiring disclosure of significant segment expenses that are regularly provided to the chief operating decision maker ("CODM"), clarifying when an entity *may* report *one* or more additional measures to assess segment performance, requiring enhanced interim disclosures, providing new disclosure requirements for entities with a single reportable segment, and requiring other new disclosures. ASU 2023-07 is effective for fiscal years beginning after December 31, 2024. Early adoption is permitted. the Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740).* ASU *2023-09* requires public business entities to disclose additional information with respect to the reconciliation of the effective tax rate to the statutory rate. Additionally, public business entities will need to disaggregate federal, state and foreign taxes paid in their financial statements. ASU 2023-09 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2024. The Company is currently evaluating the impact the adoption of this standard will have on its 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 of December 31, 2023, total net unrealized losses in the debt securities was $13.3 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 maturity or their values improve.

*Company Liquidity*

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. 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, and we do not anticipate any dividends being paid to us from our insurance subsidiaries during 2024 and 2025.

Due to significant losses in 2023, much of which is attributable to strengthening reserves and severe storm activity affecting the Oklahoma homeowners business, both Insurance Company Subsidiaries lack sufficient capital to continue to underwrite the volume of business they have historically written. We incurred a consolidated net loss of $25.9 million. We used cash from the operation activities of $13.6 million, and our overall equity at December 31, 2023 totaled $2.9 million. As a result of these factors, we were out of compliance with several of our debt covenants and obtained a waiver from our lender. The aforementioned factors have resented additional liquidity and capital challenges on the Company's financial condition. Accordingly, management is in the process of implementing a strategic shift in which the Company will utilize third-party insurers and rely mostly on commission revenues generated by our managed general agency. Management may also consider the sale of other assets to generate additional cash resources available to the Company.

In September 2023, the Company repaid its $24.4 million of 6.75% public senior unsecured notes (the "Old Public Notes") and funded it, in part, with issuing 9.75% public senior unsecured notes (the "New Public Notes") in the amount of $17.9 million.

The Company also paid down $500,000 of principal on its subordinated notes on September 29, 2023. The Company then restructured its existing $10.0 million of subordinated notes to Senior Secure Notes with its lender on September 30, 2023. The Senior Secured Notes mature on September 30, 2028, and bear an interest rate of 12.5% per annum. Quarterly principal payments of $250,000 are required on the Senior Secured Notes starting on December 31, 2023 through September 30, 2028. The requirements on the new Senior Secured Notes will result in $1.0 million per year of principal to be paid on the senior secured debt that previously was not required.

On December 20, 2023, the Company issued $6.0 million of its newly designated Series A Preferred Stock (the "Preferred Stock"). The Company intends to use the proceeds for working capital and general corporate purposes.

As of the filing of this Form 10-K, the Insurance Company Subsidiaries are still the primary underwriters for the business produced by CIS and still the primary source of revenues and cash flows. The Insurance Company Subsidiaries are currently both required to provide an action plan with the state of domicile insurance regulator to remediate certain statutory capital and surplus regulatory deficiencies. If we do not remediate the regulatory deficiencies the insurance regulator could suspend or terminate the insurers' authority to write business. Also, A.M. Best and Kroll downgraded the financial strength ratings of both companies and we terminated the rating relationship. Therefore, neither company is currently rated by a nationally recognized statistical rating organization which can have an impact on the ability to market to policyholders. We believe that the Insurance Company Subsidiaries will both regain compliance with the state insurance regulators, however, as part of the strategic shift, we no longer expect significant revenues to be generated through them after the second quarter of 2024. These circumstances could jeopardize the ability of the Company to generate insurance underwriting revenues which could put into doubt our ability to meet our obligations as they become due.

To alleviate these concerns the Company is in the process of implementing the strategic shift mentioned above which will not require the use of either Insurance Company Subsidiary to generate the majority of the Company's revenues going forward. Rather, the Company will expect to generate the vast majority of its revenue from commissions from third-party insurers. In order to successfully implement the strategic shift the Company must have in place producer agreements with third-party insurers. Currently the Company has executed one producer agreement for approximately 25% of the existing commercial lines book of business and is expected to execute another producer agreement with a different third-party insurer for the remaining commercial lines business within a week of filing this Form 10-K. We expect to continue to underwrite the existing personal lines business within our Insurance Company Subsidiaries.

With these producer agreements in place the Company expects to be able to generate the needed revenues to meeting our obligations as they become due over the next twelve months. In the event there are delays in implementing the strategic shift or other uncertainties arise with respect to completion of our strategic shift during 2024, these events could have a negative effect on our liquidity and ability to satisfy our obligations as they become due. If the Company were to experience any such uncertainties the Company believes it has alternative sources of liquidity available which are sufficient to cover any short-term needs as a result of any such uncertainties encountered. Management believes the current actions being executed to implement the planned strategic shift coupled with additional available sources of available liquidity, will be sufficient to enable the Company to meet its obligations for the foreseeable future.

### 2. Sale of Renewal Rights

In September 2023, the Company sold the renewal rights of one of its insurance programs to another insurer for $2.5 million in cash in addition to agreeing to participate in the Company's issuance of new public debt in September 2023, by purchasing $5.0 million of new debt. The program provided mostly liability insurance to the security guard and alarm installation industries. The program produced gross earned premiums of $55.9 million and $41.0 million in 2023 and 2022, respectively. The buyer began writing new and renewal policies for this program as of September 15, 2023. On September 30, 2023, the Company ceded 100% of its gross unearned premium of $30.9 million in the program to the buyer in return for an $8.4 million ceding commission. As of December 31, 2023, the Company retained $24.1 million of net cash owed to the buyer under a funds withheld provision. This can be seen in the funds held under reinsurance agreements in the liability section of the Company's Consolidated Balance Sheets. The funds withheld balance is expected to be paid out as premiums are earned and related claims are paid. The Company incurred $135,000 in expense related to this transaction. As part of this transaction, five claims staff transferred employment to the buyer. The buyer will handle all of the Company’s run-off claims for this program under a related claims administration agreement.

### 3. VSRM Transaction

Prior to October 13, 2022, CIS, formerly known as 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, CIS purchased the other 50% of Venture from an individual for $9.7 million. Following this purchase, CIS 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. CIS 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 CIS'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.

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 |
| Gross 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 $1.0 million promissory note was still outstanding and payable to CIC as of December 31, 2023. The $934,000 receivable from VSRM in the table below transferred as part of the deconsolidation resulted in the Company retaining an existing related payable for $934,000 which was repaid in 2023.

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.

## 4. Sale of Certain Agency Business

In June of 2021, CIS, formerly known as Sycamore, sold the customer accounts and other related assets of some of its personal and commercial lines of business to Venture. Two promissory notes were created as a result of the sale (one for $3.0 million and one for $6.0 million). In December 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 3 ~ *Acquisition of Joint Venture and Subsequent Sale of Business*, and was still outstanding as a payable to CIC as of December 31, 2023.

## 5. Investments

Results for reporting periods occurring before January 1, 2023 continue to be reported in accordance with previously applicable U.S. GAAP and are presented under ASC 326, which was adopted by the Company on January 1, 2023. The Company analyzed its investment portfolio in accordance with its credit loss review policy and determined it did not need to record a credit loss for the twelve months ended December 31, 2023. The Company holds only investment grade securities from high credit quality issuers. The gross unrealized losses of $13.3 million as of December 31, 2023, from the Company's available-for-sale securities are due to market conditions and interest rate changes. Management believes it will not need to sell its available-for-sale securities at significant losses as it has the ability and intention to hold them until maturity or until their values improve.

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, 2023 and 2022 were as follows (dollars in thousands):

| | December 31, 2023 | | | |
|---|---|---|---|---|
| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| **Debt securities:** | | | | |
| U.S. Government | $ 5,405 | $ 3 | $ (161) | $ 5,247 |
| State and local government | 24,274 | — | (3,810) | 20,464 |
| Corporate debt | 34,002 | — | (3,507) | 30,495 |
| Asset-backed securities | 38,289 | 47 | (584) | 37,752 |
| Mortgage-backed securities | 26,768 | — | (4,641) | 22,127 |
| Commercial mortgage-backed securities | 3,404 | — | (160) | 3,244 |
| Collateralized mortgage obligations | 3,228 | — | (444) | 2,784 |
| **Total debt securities available for sale** | $ 135,370 | $ 50 | $ (13,307) | $ 122,113 |

| | December 31, 2022 | | | |
|---|---|---|---|---|
| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| **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 |

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, 2023 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | 1 | $ 649 | $ (7) | 9 | $ 3,400 | $ (154) | 10 | $ 4,049 | $ (161) |
| State and local government | 3 | 1,193 | (7) | 113 | 19,096 | (3,803) | 116 | 20,289 | (3,810) |
| Corporate debt | - | - | - | 66 | 30,495 | (3,507) | 66 | 30,495 | (3,507) |
| Asset-backed securities | 1 | 1,090 | (1) | 21 | 16,270 | (583) | 22 | 17,360 | (584) |
| Mortgage-backed securities | 4 | 11 | (1) | 64 | 22,116 | (4,640) | 68 | 22,127 | (4,641) |
| Commercial mortgage -backed securities | - | - | - | 4 | 3,225 | (160) | 4 | 3,225 | (160) |
| Collateralized mortgage obligations | - | - | - | 32 | 2,803 | (444) | 32 | 2,803 | (444) |
| **Total debt securities available for sale** | **9** | **2,943** | **(16)** | **309** | **97,405** | **(13,291)** | **318** | **100,348** | **(13,307)** |

| | 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)** |

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

| | December 31, | |
|---|---|---|
| | 2023 | 2022 |
| Debt securities | $ 4,121 | $ 2,517 |
| Equity securities | 36 | 52 |
| Cash, cash equivalents, and short-term investments | 1,603 | 776 |
| Total investment income | 5,760 | 3,345 |
| Investment expenses | (234) | (302) |
| **Net investment income** | $ 5,526 | $ 3,043 |

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, 2023 | December 31, 2022 |
|---|---|---|
| **Debt securities:** | | |
| Gross realized gains | $ — | $ 6 |
| Gross realized losses | (20) | (155) |
| Total debt securities | (20) | (149) |
| **Equity securities:** | | |
| Gross realized gains | — | 375 |
| Gross realized losses | — | (1,731) |
| Total equity securities | — | (1,356) |
| **Total net realized investment gains** | $ (20) | $ (1,505) |

Proceeds from the sales of available-for-sale securities were $11.9 million and $32.0 million for the years ended December 31, 2023 and 2022, respectively. The gross realized gains from sales of available-for-sale securities for the years ended December 31, 2023 and 2022 were $0 and $5,000, respectively. The gross realized losses from sales of available-for-sale securities for the years ended December 31, 2023 and 2022 were $18,000 and $155,000, respectively.

As of December 31, 2023 and 2022, there were $0 of payables from securities purchased, respectively. As of December 31, 2023 and 2022, there were $0 and $650,000 of receivables from securities sold, respectively.

The Company's gross unrealized losses related to its equity investments were $535,000 and $638,000 as of December 31, 2023 and 2022, respectively. The Company's gross unrealized gains related to its equity investments were $505,000 as of December 31, 2023. The Company had no gross unrealized gains related to its equity investments as of December 31, 2022.

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 2023 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, 2023 and December 31, 2022 were $1.4 million and $1.8 million, respectively.

The table below summarizes the amortized cost and fair value of available-for-sale debt securities by contractual maturity at December 31, 2023. 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 | $ 3,212 | $ 3,175 |
| Due after one year through five years | 30,996 | 28,983 |
| Due after five years through ten years | 18,768 | 15,904 |
| Due after ten years | 10,705 | 8,144 |
| Securities with contractual maturities | 63,681 | 56,206 |
| Asset-backed securities | 38,289 | 37,752 |
| Mortgage-backed securities | 26,768 | 22,127 |
| Commercial mortgage-backed securities | 3,404 | 3,244 |
| Collateralized mortgage obligations | 3,228 | 2,784 |
| Total debt securities | $ 135,370 | $ 122,113 |

At December 31, 2023 and 2022, the Insurance Companies Subsidiaries had an aggregate of $8.2 million and $8.0 million, respectively, on deposit in trust accounts to meet the deposit requirements of various state insurance departments. At December 31, 2023 and 2022, the Company had $123.5 million and $95.7 million held in trust accounts to meet collateral requirements with other third-party insurers, relating to various fronting arrangements. Approximately $111.3 million of the trust account balances are for collateral of gross unearned premiums and gross loss reserves of the fronted business on the Security Program and the quick service restaurant program. 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. As the unearned premiums run off to zero and loss reserves are paid on these programs, the trust balances will be released and available for general use.

**6. 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, which are also 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, 2023 and 2022 (dollars in thousands):

| | December 31, 2023 | | | |
|---|---|---|---|---|
| | Fair Value Measurements Using | | | |
| | Total | Level 1 | Level 2 | Level 3 |
| **Assets:** | | | | |
| **Debt Securities:** | | | | |
| U.S. Government | $ 5,247 | $ — | $ 5,247 | $ — |
| State and local government | 20,464 | — | 20,464 | — |
| Corporate debt | 30,495 | — | 30,495 | — |
| Asset-backed securities | 37,752 | — | 37,752 | — |
| Mortgage-backed securities | 22,127 | — | 22,127 | — |
| Commercial mortgage-backed securities | 3,244 | — | 3,244 | — |
| Collateralized mortgage obligations | 2,784 | — | 2,784 | — |
| Total debt securities | 122,113 | — | 122,113 | — |
| Equity Securities | 896 | 139 | 757 | — |
| Short-term investments | 20,838 | 20,838 | — | — |
| **Total marketable investments measured at fair value** | $ 143,847 | $ 20,977 | $ 122,870 | $ — |
| **Investments measured at NAV:** | | | | |
| Investment in limited partnership | 1,458 | | | |
| **Total assets measured at fair value** | $ 145,305 | | | |
| **Liabilities:** | | | | |
| Senior Unsecured Notes * | $ 11,791 | $ — | $ 11,791 | $ — |
| Senior Secured Notes * | 9,965 | — | — | 9,965 |
| **Total Liabilities (non-recurring fair value measure)** | $ 21,756 | $ — | $ 11,791 | $ 9,965 |

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

| | 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

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 15% and 18% of the fair value of the total marketable investments measured at fair value as of December 31, 2023 and December 31, 2022, respectively.

Level 2 investments include debt securities and equity securities, which consist of U.S. government agency securities, state and local municipal bonds, 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 85% and 82% of the fair value of the total marketable investments measured at fair value as of December 31, 2023 and December 31, 2022, respectively.

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, 2023, the fair value of the Senior Secured Notes reported at amortized cost was considered a Level 3 liability in the fair value hierarchy and is entirely comprised of the Company's Senior Secured Notes. In determining the fair value of the Senior Secured Notes outstanding at December 31, 2023, the security attributes (issue date, maturity, coupon, calls, etc.) 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, 2023 U.S. Treasury rates. A new lattice was generated and the fair value was computed from the OAS. There were no changes in assumptions of credit risk from the issuance date.

As of December 31, 2022, 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, 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 U.S. Treasury rates. A new lattice was generated and the fair value was computed from the OAS. There were no changes in assumptions of credit risk from the issuance date.

The Company's policy on recognizing transfers between hierarchies is applied at the end of each reporting period. There were no transfers in or out of Level 3 for the twelve months ended December 31, 2023 and 2022.

### 7. 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, 2023 and 2022. The activity in deferred policy acquisition costs, net of reinsurance transactions, is as follows (dollars in thousands):

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Balance at beginning of period | $ 10,290 | $ 12,267 |
| Deferred policy acquisition costs | 16,887 | 20,202 |
| Amortization of policy acquisition costs | (16,589) | (22,179) |
| Impact from renewal rights sale | (4,303) | — |
| Net change | (4,005) | (1,977) |
| Balance at end of period | $ 6,285 | $ 10,290 |

**8. 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, 2023 | December 31, 2022 |
|---|---|---|
| Gross reserves - beginning of period | $ 165,539 | $ 139,085 |
| Less: reinsurance recoverables on unpaid losses | 82,651 | 40,344 |
| Net reserves - beginning of period | 82,888 | 98,741 |
| Add: incurred losses and loss adjustment expenses, net of reinsurance | | |
| Current period | 64,580 | 57,156 |
| Prior period | 17,833 | 24,284 |
| Total net incurred losses and loss adjustment expenses | 82,413 | 81,440 |
| Deduct: loss and loss adjustment expense payments, net of reinsurance | | |
| Current period | 27,001 | 20,894 |
| Prior period | 34,495 | 76,399 |
| Total net loss and loss adjustment expense payments | 61,496 | 97,293 |
| Net reserves - end of period | 103,805 | 82,888 |
| Plus: reinsurance recoverables on unpaid losses | 70,807 | 82,651 |
| Gross reserves - end of period | $ 174,612 | $ 165,539 |

There was $17.8 million and $24.3 million of adverse development on prior accident year reserves in 2023 and 2022, respectively. There were no significant changes in the key methods utilized in the analysis and calculations of the Company's reserves during 2023 and 2022.

Of the $17.8 million of adverse development in 2023, $5.9 million was related to the 2022 accident year, $6.8 million was related to the 2021 accident year, $4.9 million was related to the 2020 accident year, and $218,000 was related to the 2019 and prior accident years. The development came primarily from commercial liability lines of business particularly in the longer tail lines of business, as a result of additional loss emergence primarily from the Security Program which represented 58% of the adverse development while the remainder was substantially in hospitality, most notably the quick service restaurant program. Both the Security Program and the quick service restaurant program are no longer written by the Company. As a result of this loss emergence, the Company increased its expected loss ratio selections on both prior accident years as well as the current accident year, resulting in increases to our carried loss reserves.

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.

**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, 2014 to 2023, as well as total IBNR and the cumulative number of reported claims for the year ended December 31, 2023, by reportable segment and accident year (dollars in thousands). The tables do not include reinsurance recoverables from the LPT. The 2023 and 2022 columns in the commercial lines incurred and paid loss tables below do not include reinsurance recoverables on reserves of $10.9 million and $25.9 million and reinsurance recoverables on paid losses of $3.8 million and $3.9 million, respectively, related to the LPT.

**Commercial Lines**

| | Incurred loss and allocated loss adjustment expenses, net of reinsurance | | | | | | | | | | Total IBNR | Cumulative number of reported claims |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Accident Year** | **2014*** | **2015*** | **2016*** | **2017*** | **2018*** | **2019*** | **2020*** | **2021*** | **2022*** | **2023** | **2023** | **2023** |
| **2014** | 19,709 | 19,907 | 22,711 | 26,367 | 28,145 | 28,766 | 29,045 | 29,175 | 29,011 | 29,093 | — | 1,755 |
| **2015** | | 22,442 | 26,633 | 31,861 | 34,478 | 36,372 | 37,795 | 38,824 | 39,093 | 39,311 | — | 2,363 |
| **2016** | | | 32,396 | 34,935 | 40,440 | 44,355 | 46,089 | 46,993 | 48,677 | 49,162 | 19 | 3,559 |
| **2017** | | | | 44,251 | 44,495 | 49,749 | 51,883 | 55,589 | 56,649 | 59,149 | 234 | 5,835 |
| **2018** | | | | | 42,624 | 42,432 | 49,741 | 55,261 | 60,102 | 61,881 | 568 | 6,128 |
| **2019** | | | | | | 41,286 | 42,129 | 46,329 | 55,263 | 59,028 | 1,611 | 6,337 |
| **2020** | | | | | | | 33,867 | 35,328 | 39,193 | 43,918 | 3,012 | 3,866 |
| **2021** | | | | | | | | 40,388 | 42,266 | 48,650 | 5,557 | 2,947 |
| **2022** | | | | | | | | | 41,708 | 49,751 | 10,142 | 2,323 |
| **2023** | | | | | | | | | | 39,456 | 20,752 | 1,644 |
| | | | | | | | | | **Total** | $ 479,399 | $ 41,895 | |

**Commercial lines**

| | Cumulative paid loss and allocated loss adjustment expenses, net of reinsurance | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Accident Year** | **2014*** | **2015*** | **2016*** | **2017*** | **2018*** | **2019*** | **2020*** | **2021*** | **2022*** | **2023** |
| **2014** | 8,715 | 13,977 | 17,458 | 22,446 | 25,609 | 27,544 | 28,389 | 28,648 | 28,608 | 28,688 |
| **2015** | | 10,470 | 17,817 | 22,549 | 30,475 | 34,497 | 35,833 | 37,563 | 38,685 | 39,116 |
| **2016** | | | 10,255 | 19,135 | 27,785 | 37,967 | 41,945 | 43,644 | 46,957 | 48,557 |
| **2017** | | | | 12,448 | 23,020 | 34,205 | 42,308 | 47,148 | 52,800 | 57,304 |
| **2018** | | | | | 10,375 | 19,799 | 31,633 | 41,577 | 50,508 | 57,114 |
| **2019** | | | | | | 10,078 | 20,462 | 28,958 | 39,893 | 50,369 |
| **2020** | | | | | | | 10,217 | 17,332 | 24,225 | 33,354 |
| **2021** | | | | | | | | 12,870 | 21,313 | 30,478 |
| **2022** | | | | | | | | | 12,839 | 22,892 |
| **2023** | | | | | | | | | | 8,486 |
| | | | | | | | | | **Total** | $ 376,358 |

| | |
|---|---|
| **Net Unpaid losses and ALAE, years 2014 through 2023** | $ 103,041 |
| **Unpaid losses and ALAE, prior to 2014*** | 160 |
| **Unpaid Losses, LPT** | (10,928) |
| **Unpaid losses and ALAE, net of reinsurance** | $ 92,273 |

* Presented as unaudited required supplementary information.

**Personal Lines**

| | Incurred loss and allocated loss adjustment expenses, net of reinsurance For the years ended December 31, | | | | | | | | | | Total IBNR | Cumulative number of reported claims |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Accident Year** | **2014*** | **2015*** | **2016*** | **2017*** | **2018*** | **2019*** | **2020*** | **2021*** | **2022*** | **2023** | **2023** | **2023** |
| **2014** | 17,951 | 17,471 | 17,735 | 17,880 | 17,929 | 18,082 | 18,095 | 18,097 | 18,052 | 18,028 | — | 3,737 |
| **2015** | | 10,877 | 13,445 | 14,721 | 15,285 | 15,364 | 15,427 | 15,427 | 15,448 | 15,456 | — | 2,154 |
| **2016** | | | 11,619 | 13,418 | 14,949 | 15,550 | 15,655 | 15,634 | 15,679 | 15,681 | — | 1,815 |
| **2017** | | | | 14,058 | 13,550 | 14,493 | 14,793 | 14,911 | 14,957 | 14,955 | — | 2,914 |
| **2018** | | | | | 5,893 | 6,378 | 6,283 | 6,382 | 6,298 | 6,336 | — | 803 |
| **2019** | | | | | | 3,099 | 2,712 | 2,898 | 2,862 | 2,867 | — | 341 |
| **2020** | | | | | | | 2,339 | 2,590 | 2,636 | 2,619 | — | 324 |
| **2021** | | | | | | | | 4,409 | 4,332 | 4,240 | — | 48 |
| **2022** | | | | | | | | | 9,404 | 8,122 | — | 714 |
| **2023** | | | | | | | | | | 19,444 | 1,156 | 1,584 |
| | | | | | | | | | **Total** | $ 107,748 | $ 1,156 | |

**Personal lines**

**Cumulative paid loss and allocated loss adjustment expenses, net of reinsurance**

| Accident Year | 2014* | 2015* | 2016* | 2017* | 2018* | 2019* | 2020* | 2021* | 2022* | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| | For the years ended December 31, | | | | | | | | | |
| **2014** | 12,819 | 16,515 | 17,260 | 17,746 | 17,855 | 18,047 | 18,068 | 18,070 | 18,025 | 18,027 |
| **2015** | | 7,771 | 11,873 | 13,844 | 15,159 | 15,250 | 15,290 | 15,416 | 15,444 | 15,452 |
| **2016** | | | 7,119 | 11,238 | 14,442 | 15,110 | 15,351 | 15,452 | 15,679 | 15,681 |
| **2017** | | | | 8,320 | 12,944 | 14,004 | 14,526 | 14,866 | 14,957 | 14,955 |
| **2018** | | | | | 4,296 | 5,618 | 6,100 | 6,242 | 6,244 | 6,333 |
| **2019** | | | | | | 2,119 | 2,604 | 2,692 | 2,850 | 2,859 |
| **2020** | | | | | | | 1,307 | 2,455 | 2,605 | 2,619 |
| **2021** | | | | | | | | 3,022 | 3,980 | 4,081 |
| **2022** | | | | | | | | | 5,397 | 7,923 |
| **2023** | | | | | | | | | | 16,170 |
| | | | | | | | | | **Total** | $104,100 |

| | |
|---|---|
| **Net Unpaid losses and ALAE, years 2014 through 2023** | $ 3,648 |
| **Unpaid losses and ALAE, prior to 2014*** | — |
| **Unpaid losses and ALAE, net of reinsurance** | $ 3,648 |

* Presented as unaudited required supplementary information.

**Total Lines**

**Incurred loss and allocated loss adjustment expenses, net of reinsurance**

| Accident Year | 2014* | 2015* | 2016* | 2017* | 2018* | 2019* | 2020* | 2021* | 2022* | 2023 | Total IBNR 2023 | Cumulative number of reported claims 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | For the years ended December 31, | | | | | | | | | | | |
| **2014** | 37,660 | 37,378 | 40,446 | 44,247 | 46,074 | 46,848 | 47,140 | 47,272 | 47,063 | 47,121 | — | 5,492 |
| **2015** | | 33,319 | 40,078 | 46,581 | 49,763 | 51,736 | 53,222 | 54,251 | 54,541 | 54,767 | — | 4,517 |
| **2016** | | | 44,015 | 48,353 | 55,389 | 59,905 | 61,744 | 62,627 | 64,356 | 64,843 | 19 | 5,374 |
| **2017** | | | | 58,309 | 58,045 | 64,242 | 66,676 | 70,500 | 71,606 | 74,104 | 234 | 8,749 |
| **2018** | | | | | 48,517 | 48,810 | 56,024 | 61,643 | 66,400 | 68,217 | 568 | 6,931 |
| **2019** | | | | | | 44,385 | 44,841 | 49,227 | 58,125 | 61,895 | 1,611 | 6,678 |
| **2020** | | | | | | | 36,206 | 37,918 | 41,829 | 46,537 | 3,012 | 4,190 |
| **2021** | | | | | | | | 44,797 | 46,598 | 52,890 | 5,557 | 2,995 |
| **2022** | | | | | | | | | 51,112 | 57,873 | 10,142 | 3,037 |
| **2023** | | | | | | | | | | 58,900 | 21,908 | 3,228 |
| | | | | | | | | | **Total** | 587,147 | 43,051 | |

**Total lines**

| Accident Year | Cumulative paid loss and allocated loss adjustment expenses, net of reinsurance — For the years ended December 31, 2014* | 2015* | 2016* | 2017* | 2018* | 2019* | 2020* | 2021* | 2022* | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| **2014** | 21,534 | 30,492 | 34,718 | 40,192 | 43,464 | 45,591 | 46,457 | 46,718 | 46,633 | 46,715 |
| **2015** | | 18,241 | 29,690 | 36,393 | 45,634 | 49,747 | 51,123 | 52,979 | 54,129 | 54,568 |
| **2016** | | | 17,374 | 30,373 | 42,227 | 53,077 | 57,296 | 59,096 | 62,636 | 64,238 |
| **2017** | | | | 20,768 | 35,964 | 48,209 | 56,834 | 62,014 | 67,757 | 72,259 |
| **2018** | | | | | 14,671 | 25,417 | 37,733 | 47,819 | 56,752 | 63,447 |
| **2019** | | | | | | 12,197 | 23,066 | 31,650 | 42,743 | 53,228 |
| **2020** | | | | | | | 11,524 | 19,787 | 26,830 | 35,973 |
| **2021** | | | | | | | | 15,892 | 25,293 | 34,559 |
| **2022** | | | | | | | | | 18,236 | 30,815 |
| **2023** | | | | | | | | | — | 24,656 |
| | | | | | | | | | **Total** | $480,458 |

| | |
|---|---|
| **Net Unpaid losses and ALAE, years 2014 through 2023** | $106,689 |
| **Unpaid losses and ALAE, prior to 2014*** | 160 |
| **Unpaid losses, LPT** | (10,928) |
| **Unpaid losses and ALAE, net of reinsurance** | $ 95,921 |

* 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, 2023, by reportable segment (dollars in thousands).

| | December 31, 2023 |
|---|---|
| Net unpaid losses claims and ALAE | |
| Commercial Lines | $ 92,273 |
| Personal Lines | 3,648 |
| Total unpaid losses and LAE, net of reinsurance | 95,921 |
| Reinsurance recoverable on losses and LAE | |
| Commercial Lines | 68,981 |
| Personal Lines | 1,826 |
| Total reinsurance recoverable on unpaid losses and LAE | 70,807 |
| ULAE expense | 7,884 |
| Total gross unpaid losses and LAE | $ 174,612 |

## 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 | 27.3% | 21.6% | 18.6% | 12.8% | 9.2% | 4.9% | 2.9% | 1.5% | 0.7% | 0.5% |
| Personal Lines | 83.1% | 11.3% | 5.3% | 0.3% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Total Lines | 29.2% | 21.3% | 18.2% | 12.4% | 8.9% | 4.7% | 2.8% | 1.4% | 0.7% | 0.4% |

## 9. 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 $400,000 in 2023 and $340,000 in 2022. The Company ceded specific loss commercial property risks in excess of $400,000 in 2023 and $300,000 in 2022. The Company ceded homeowners specific risks in excess of $300,000 in 2023 and 2022.

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. The ceding commissions were carried forward under the 2023 treaties with substantially similar terms.

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, 2023, 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.

*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, 2023, 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, 2023, 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, 2023 through December 31, 2023, the Company was party to an excess of loss reinsurance treaty for commercial property coverage with a limit of $7.6 million in excess of $400,000.
- 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.

- At December 31, 2023, the Company was covered for property catastrophe losses up to $27.0 million in excess of $3.0 million retention for the first event. This treaty terminates on June 1, 2024.
- 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.

*Quota Share*

- 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.
- The Company ceded 90% to 100% of its commercial umbrella coverages under a quota share treaty.
- The Company ceded 50% of its cannabis program net written premiums under a quota share treaty.
- The Company ceded 100% of a small number of equipment breakdown, employment practices liability, data compromise, and cannabis cyber liability coverages that are occasionally bundled with other products under separate quota share agreements.

*Sale of Renewal Rights*

- On September 30, 2023, the Company entered into a 100% quota share reinsurance agreement with the buyer of the renewal rights described in Note 2 ~ Sale of Renewal Rights. The Company ceded $30.9 million of its gross unearned premiums relating to the security guard and alarm installation program in exchange for 22% - 27% ceding commission.

*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 $3.9 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. As of December, 31, 2023, the Company has recorded losses through the $5.5 million corridor and $9.1 million into the $20.0 million layer. As of December 31, 2023, the Consolidated Balance Sheet included $3.8 million of reinsurance recoverables on paid losses related to the LPT, and $10.9 million of reinsurance recoverables on unpaid losses related to the LPT.

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 $43.6 million and $42.2 million of written premiums under the insurance fronting arrangements for the years ended December 31, 2023 and 2022, respectively.

The following table presents the effects of reinsurance and assumed reinsurance transactions on written premiums, earned premiums and losses and LAE (dollars in thousands). In 2023, ceded written and earned premium amounts included $91,000 of reinsurance reinstatement costs related to catastrophe losses. In 2022, ceded written and earned premium amounts included $1.6 million of reinsurance reinstatement costs relating to Hurricane Ian.

| | Year Ended December 31, 2023 | Year Ended December 31, 2022 |
|---|---|---|
| Written premiums: | | |
| Direct | $ 100,214 | $ 95,832 |
| Assumed | 43,620 | 42,187 |
| Ceded | (75,146) | (46,787) |
| Net written premiums | $ 68,688 | $ 91,232 |
| | | |
| Earned premiums: | | |
| Direct | $ 96,595 | $ 97,843 |
| Assumed | 49,977 | 37,558 |
| Ceded | (62,637) | (38,690) |
| Net earned premiums | $ 83,935 | $ 96,711 |
| | | |
| Loss and loss adjustment expenses: | | |
| Direct | $ 75,175 | $ 73,000 |
| Assumed | 45,662 | 43,487 |
| Ceded | (38,424) | (35,047) |
| Net loss and LAE | $ 82,413 | $ 81,440 |

**10. Debt**

As of December 31, 2023, the Company’s debt was comprised of two instruments: $17.9 million of 9.75% public senior unsecured notes (the "New Public Notes") which were issued during the third quarter of 2023, and $9.8 million of privately placed 12.5% senior secured notes ("Senior Secured Notes"), which were issued on September 30, 2023. The New Public Notes have substantially the same terms as the 6.75% public senior unsecured notes (the "Old Public Notes") which matured on September 30, 2023, except for the coupon. A summary of the Company's outstanding debt is as follows (dollars in thousands):

| | As of December 31, 2023 | | | As of December 31, 2022 | | |
|---|---|---|---|---|---|---|
| | Gross Debt | Unamortized Debt Issuance Costs | Net Debt | Gross Debt | Unamortized Debt Issuance Costs | Net Debt |
| Public Notes | $ 17,887 | $ 1,679 | $ 16,208 | $ 24,381 | $ 195 | $ 24,186 |
| Senior Secured Notes | 9,750 | 897 | 8,853 | — | — | — |
| Subordinated notes | — | — | — | 10,500 | 810 | 9,690 |
| Total | $ 27,637 | $ 2,576 | $ 25,061 | $ 34,881 | $ 1,005 | $ 33,876 |

***Public Note repayment and new issuance***

The Company repaid all the $24.4 million of its Old Public Notes which matured on September 30, 2023, by paying off $13.2 million in cash and exchanging $11.2 million for the New Public Notes. The New Public Notes have substantially the same terms as the Old Public Notes, except for the coupon.

The Company funded the repayment of the Old Public Notes with several different fundraising initiatives. In August and September of 2023, the Company raised $6.7 million in cash under and S-1 registration statement for the New Public Notes.

The Company also raised $6.2 million under an S-4 registration statement exchange offering for the New Public Notes and the Company's lender of its subordinated notes also exchanged its $5.0 million holding of the Company's Old Public

Notes for $5.0 million of the New Public Notes under the S-1 registration statement. As such, there was a non-cash exchange of $11.2 million of Old Public Notes for New Public Notes. The remaining $6.5 million of cash needed to pay down the Old Public Notes was provided with cash on hand.

***New Public Notes***

The Company issued $17.9 million of New Public Notes during the third quarter of 2023. The new notes bear an interest rate of 9.75% per annum, payable quarterly at the end of March, June, September and December and mature on September 30, 2028. The Company may redeem the new notes, in whole or in part, at face value at any time after September 30, 2025.

***Senior Secured Notes***

The Company paid down $500,000 of principal on its subordinated notes on September 29, 2023. The Company then restructured its existing $10.0 million of subordinated notes to Senior Secured Notes with its lender on September 30, 2023. The Senior Secured Notes mature on September 30, 2028, and bear an interest rate of 12.5% per annum. Interest is payable quarterly at the end of March, June, September, and December. Quarterly principal payments of $250,000 are required starting on December 31, 2023 through September 30, 2028. The Company may redeem the senior secured notes, in whole or in part, for a call premium of $1.8 million less 22% of the interest payment amounts that were paid prior to the date of redemption. The Company accounted for this restructuring as a debt modification because there was no concession made to the lender.

***Debt issuance costs***

The Company incurred $173,000 of restructuring costs from the lender related to the Senior Secured Notes. These costs were capitalized as debt issuance costs as of September 30, 2023.

As of December 31, 2023, the carrying value of the New Public Notes and Senior Secured Notes were offset by $1.7 million and $897,000 of capitalized costs, respectively. The debt issuance costs are amortized through interest expense over the life of the loans.

***Debt covenants***

The Senior Secured 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. The Senior Secured Notes also require that any proceeds the Company receives from asset sales be used to pay down the principal. As of December 31, 2023, the Company was not in compliance with the tangible net worth, dividend paying capacity, risk-based capital and consolidated debt to capital covenants. On March 27, 2024, the holders of the Senior Secured Notes waived the December 31, 2023 covenants and modified the minimum requirements of the financial debt covenants. Management expects to be in compliance with all debt covenants in future periods.

The following table shows the scheduled principal payments of the Company's debt as of December 31, 2023 (dollars in thousands):

| Year | Senior unsecured notes | Senior secured notes |
|---|---|---|
| 2024 | 1,000 | — |
| 2025 | 1,000 | — |
| 2026 | 1,000 | — |
| 2027 | 1,000 | — |
| 2028 | 5,750 | 17,887 |
| Total | $ 9,750 | $ 17,887 |

***Line of credit***

The Company maintained a $10.0 million line of credit with a national bank 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.

## 11. Income Taxes

At December 31, 2023, the Company had current income tax receivable of $65,000 included in other assets in the consolidated balance sheets. At December 31, 2022, the Company had current income tax receivable of $58,000 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, | |
|---|---|---|
| | 2023 | 2022 |
| Current tax expense (benefit) | $ 26 | $ (45) |
| Deferred tax expense (benefit) | (17) | (9,396) |
| Total income tax expense (benefit) | $ 9 | $ (9,441) |

The income tax expense (benefit) differed from the amounts computed by applying the statutory U.S. federal income tax rate of 21% in 2023 and 2022 to pretax income as a result of the following (dollars in thousands):

| | Year Ended December 31, | |
|---|---|---|
| | 2023 | 2022 |
| Income (loss) before income taxes | $ (25,644) | $ (20,490) |
| Statutory U.S. federal income tax rate | (5,385) | (4,303) |
| State income taxes, net of federal benefit | (1,503) | (5,984) |
| Tax-exempt investment income and dividend received deduction | (13) | (22) |
| Nondeductible meals and entertainment | 73 | 79 |
| Valuation allowance on deferred tax assets | 7,254 | 3,715 |
| Equity-earnings from Affiliate | — | 195 |
| Net gain from sale of agency assets | — | (2,848) |
| Utilization of state NOLs | — | (386) |
| Deferred corrections | (476) | — |
| PPP Loan forgiveness | — | — |
| Other | 59 | 113 |
| Income tax expense (benefit) | $ 9 | $ (9,441) |
| Effective tax rate | — | 46.1% |

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, 2023 | December 31, 2022 |
|---|---|---|
| Deferred tax assets: | | |
| Discounted unpaid losses and loss adjustment expenses | $ 1,749 | $ 1,217 |
| Unearned premiums | 1,648 | 2,324 |
| Net operating loss carryforwards | 16,960 | 12,152 |
| Net unrealized losses on investments | 2,780 | 3,687 |
| State net operating loss carryforwards | 6,523 | 5,097 |
| Other | 112 | 403 |
| Gross deferred tax assets | 29,772 | 24,880 |
| Less valuation allowance | (28,013) | (21,663) |
| Total deferred tax assets, net of allowance | 1,759 | 3,217 |
| Deferred tax liabilities: | | |
| Investment basis difference | 208 | 23 |
| Tax rate change transition discounting | 92 | 137 |
| Equity investment in Affiliate | — | 691 |
| Deferred policy acquisition costs | 1,320 | 2,161 |
| Intangible assets | 115 | 115 |
| Property and equipment | 24 | 41 |
| Other | — | 49 |
| Total deferred tax liabilities | 1,759 | 3,217 |
| 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, 2023, the Company has NOL carryforwards for federal income tax purposes of $80.8 million, of which $78.2 million expire in tax years 2030 through 2043 and $10.3 million never expire. Of this amount, $19.5 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 $120.3 million, which expire in tax years 2024 through 2043.

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, 2023. 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 $28.0 million and $21.7 million at December 31, 2023 and 2022, 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 2020, the Company is no longer subject to U.S. federal examinations; however, the Internal Revenue Service has the ability to review years prior to 2020 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.

## 12. 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, 2023, CIC fell within the Company Action Level and WPIC fell within the Regulatory Action Level of the RBC formula. WPIC also fell below two other regulatory thresholds which are necessary to stay in compliance. Management is required to provide a plan to its domiciliary regulator that shows how the Companies will get above the minimum level requirements. Management believes that the planned reduction in premium anticipated by a strategic shift to use third-party insurers for substantially all of its commercial lines business will be sufficient to bring the Companies back into compliance by December 31, 2024. Management expects to substantially cease all writings in WPIC by the end of the second quarter of 2024. In the event the Companies do not regain compliance, the director may suspend, revoke, or limit the certificate of authority of the Companies.

As of December 31, 2022, the Insurance Company Subsidiaries' adjusted capital and surplus exceeded their authorized control level as determined by the NAIC's risk-based capital models.

Summarized 2023 and 2022 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 |
|---|---|---|
| **2023** | | |
| Statutory capital and surplus | $ 32,117 | $ 7,494 |
| RBC authorized control level | 19,050 | 5,268 |
| Statutory net income (loss) | (14,014) | (9,841) |
| RBC % | 169% | 142% |

| | 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% |

### *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.

## 13. Shareholders' Equity

### *Preferred Stock*

On December 20, 2023, the Company issued $6.0 million of its newly designated Series A Preferred Stock (the "Preferred Stock"), no par value, through a private placement of 1,000 shares priced at $6,000 per share that matures on June 30, 2026. The Preferred Stock was sold to Clarkston 91 West LLC (the "Purchaser"), an entity affiliated with Gerald and Jeffrey Hakala, members of the Board of Directors of the Company. The Company intends to use the proceeds for working capital and general corporate purposes. Preferred Stock shareholders have no voting rights and optional redemption is only in the control of the Company.

The Preferred Stock requires quarterly dividend payments. The Preferred Stock dividend rate is equal to the prime rate of Waterford Bank, N.A. ("Waterford Bank"), or 8.0%, whichever is higher, plus 200 basis points. As of December 31, 2023, this equated to an annualized rate of 10.5%.

The Company has the option to redeem the Preferred Stock at the end of any fiscal quarter, in whole or in part, at a price equal to issue price, plus the amount that would result in a 20.0%, compounded annually, annualized return to the holder (inclusive of the dividends paid), on the portion being redeemed.

On the maturity date, each outstanding share of the Preferred Stock, that has not otherwise been redeemed, shall, without any further action by the holders, automatically convert into 4,000 shares of the Company's common stock, subject to adjustment for reverse and forward stock splits, stock dividends, stock combinations and other similar transactions of the common stock that occur after the initial issue date.

As of December 31, 2023 and 2022, the Company had 1,000 and 0 issued and outstanding shares of Preferred Stock, respectively.

### *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, 2023, the Company repurchased 1,968 shares of stock valued at approximately $3,000 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.

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.

As of December 31, 2023 and 2022, the Company had 12,222,881 and 12,215,849 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.

### 14. 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, | |
|---|---|---|
| | 2023 | 2022 |
| Balance at beginning of period | $ (18,203) | $ (2,110) |
| Other comprehensive income (loss) before reclassifications | 3,624 | (16,024) |
| Less: amounts reclassified from accumulated other comprehensive income (loss) | (51) | 69 |
| Net current period other comprehensive income (loss) | 3,675 | (16,093) |
| Balance at end of period | $ (14,528) | $ (18,203) |

### 15. Earnings Per Share

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

| | Year Ended December 31, | |
|---|---|---|
| | 2023 | 2022 |
| Net income (loss) | $ (25,904) | $ (10,681) |
| Preferred stock dividends | 19 | - |
| Net income (loss) allocable to common shareholders | $ (25,923) | $ (10,681) |
| Weighted average common shares, basic and diluted* | 12,220,511 | 10,692,090 |
| Earnings (loss) per share, basic and diluted | $ (2.12) | $ (1.00) |

* The preferred shares that may be convertible into a total of 4,000,000 common shares were anti-dilutive and thus did not impact the diluted earnings per share calculation. There were no unvested restricted stock units as of December 31, 2023. The non-vested shares of the restricted stock units and stock options were anti-dilutive as of December 31, 2022. Therefore, the non-vested shares are excluded from earnings (loss) per share for the years ended December 31, 2022.

### 16. 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 grant date 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 grant date fair 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 $17,000 and $56,000 of compensation expense related to the RSUs for the years ended December 31, 2023, and 2022, respectively. There are no unvested RSUs as of December 31, 2023.

The Company recorded $51,000 and $53,000 of compensation expense for the years ended December 31, 2023 and 2022, respectively, related to the stock options granted on June 30, 2020. There were 100,000 options outstanding and unvested as of December 31, 2023, which will generate an estimated future expense of $78,000.

The Company recorded $122,000 and $102,000 of compensation expense for the years ended December 31, 2023, and 2022, respectively, related to the stock options granted on March 8, 2022. There were 504,000 options outstanding and unvested as of December 31, 2023, which will generate an estimated future expense of $387,000.

## 17. Related Party Transactions

J. Grant Smith joined the Company's Board on January 12, 2024. J. Grant Smith is the President and Chief Operating Officer of Waterford Bank. As of December 31, 2023, the Company owned $528,000 of Waterford Bank's common stock.

The Company employs Nicholas J. Petcoff as its Chief Executive Officer and a Director of the Company's Board of Directors. Nicholas J. Petcoff became the Company's sole Chief Executive Officer on December 31, 2023. The Company employed Andrew D. Petcoff as its Senior Vice President of Personal Lines and as President of CIS, until June 30, 2021. The Company's employment of Andrew D. Petcoff ended as the result of the Venture Transaction. See Note 4 ~ *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 3 ~ *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 former Executive Chairman and Co-Chief Executive Officer, James G. Petcoff. James G. Petcoff stepped down as the Company's Executive Chairman and Co-Chief Executive Officer on December 31, 2023.

The Company employed B. Matthew Petcoff as Vice President of CIS 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 3 ~ *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 3 ~ *VRSM Transaction.*

See Note 13 ~ *Shareholders' Equity* for the preferred and common stock issuances to members of the Company's Board.

## 18. 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 $411,000 and $457,000 for the years ended December 31, 2023 and 2022, respectively.

## 19. 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. The Company incurred $1.9 million of expenses from its use of the system in 2023 and 2022, respectively.

## 20. 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 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 chief operating decision makers, the Chief Executive Officer, 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, Texas, Oklahoma and California. For the years ended December 31, 2023 and 2022, gross written premiums attributable to these four states were 59.9% and 52.8%, respectively, of the Company's total gross written premiums.

The following table summarizes our net earned premiums:

| | **Net Earned Premium** | |
|---|---|---|
| | **2023** | **2022** |
| Commercial | 71% | 84% |
| Personal | 29% | 16% |
| Total | 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, 2023 | Commercial Lines | Personal Lines | Under-writing | Wholesale Agency | Corp-orate | Elim-inations | Total |
|---|---|---|---|---|---|---|---|
| Gross written premiums | $ 107,078 | $ 36,756 | $ 143,834 | $ — | $ — | $ — | $ 143,834 |
| | | | | | | | |
| Net written premiums | $ 36,580 | $ 32,108 | $ 68,688 | $ — | $ — | $ — | $ 68,688 |
| | | | | | | | |
| Net earned premiums | $ 59,221 | $ 24,714 | $ 83,935 | $ — | $ — | $ — | $ 83,935 |
| Agency commission income | — | — | — | 5,680 | — | — | 5,680 |
| Other income | 217 | 96 | 313 | 1,379 | 239 | (1,237) | 694 |
| Segment revenue | 59,438 | 24,810 | 84,248 | 7,059 | 239 | (1,237) | 90,309 |
| | | | | | | | |
| Loss and loss adjustment expenses, net | 62,828 | 19,585 | 82,413 | — | — | — | 82,413 |
| Policy acquisition costs | 9,134 | 6,663 | 15,797 | 6,401 | — | (1,306) | 20,892 |
| Operating expenses | 11,988 | 3,444 | 15,432 | 1,153 | 1,306 | — | 17,891 |
| Segment expenses | 83,950 | 29,692 | 113,642 | 7,554 | 1,306 | (1,306) | 121,196 |
| | | | | | | | |
| **Segment underwriting gain (loss)** | (24,512) | (4,882) | (29,394) | (495) | (1,067) | 69 | (30,887) |
| Net investment income | | | | | 5,526 | | 5,526 |
| Net realized investment gains (losses) | | | | | (20) | | (20) |
| Change in fair value of equity securities | | | | | 608 | | 608 |
| Gain on sale of renewal rights | | | | | 2,335 | | 2,335 |
| Other gains | | | | | — | | — |
| Interest expense | | | | | (3,206) | | (3,206) |
| **Income (loss) before income taxes** | $ (24,512) | $ (4,882) | $ (29,394) | $ (495) | $ 4,176 | $ 69 | $ (25,644) |
| | | | | | | | |
| **Selected Balance Sheet Data:** | | | | | | | |
| Deferred policy acquisition costs | $ 2,047 | $ 4,357 | | | | $ (119) | $ 6,285 |
| Unearned premiums | 45,494 | 19,656 | | | | | 65,150 |
| Unpaid losses and loss adjustment expenses | 169,039 | 5,573 | | | | | 174,612 |

| 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 |
| Agency commission income | — | — | — | 1,414 | — | — | 1,414 |
| Other income | 245 | 82 | 327 | 4,298 | 271 | (3,542) | 1,354 |
| 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 | — | — | — | 5,400 |
| Segment expenses | 106,913 | 17,218 | 124,131 | 6,265 | 1,192 | (3,780) | 127,808 |
| | | | | | | | |
| **Segment underwriting gain (loss)** | (25,845) | (1,248) | (27,093) | (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) | $ (27,093) | $ (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 |

## 21. Subsequent Events

The Company performed an evaluation of subsequent events through the date the financial statements were issued and determined there were no recognized or unrecognized subsequent events that would require an adjustment or additional disclosure in the condensed consolidated financial statements as of December 31, 2023.

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

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| **Assets** | | |
| Investment in subsidiaries | $ 31,157 | $ 56,670 |
| Cash | 3,174 | 9,022 |
| Due from Affiliate | 33 | 113 |
| Other assets | 1,457 | 2,434 |
| **Total assets** | $ 35,821 | $ 68,239 |
| **Liabilities and Shareholders' Equity** | | |
| **Liabilities:** | | |
| Debt | $ 29,061 | $ 33,876 |
| Due to subsidiaries | 3,436 | 9,754 |
| Other liabilities | 1,798 | 5,659 |
| **Total liabilities** | 34,295 | 49,289 |
| **Shareholders' equity:** | | |
| Preferred stock, no par value (10,000,000 shares authorized; 1,000 and 0 issued and outstanding, respectively) | 6,000 | — |
| Common stock, no par value (100,000,000 shares authorized; 12,222,881 and 12,215,849 issued and outstanding, respectively) | 98,100 | 97,913 |
| Accumulated deficit | (86,683) | (60,760) |
| Accumulated other comprehensive income (loss) | (15,891) | (18,203) |
| **Total shareholders' equity** | 1,526 | 18,950 |
| **Total liabilities and shareholders' equity** | $ 35,821 | $ 68,239 |

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, | |
|---|---|---|
| | **2023** | **2022** |
| **Revenue** | | |
| Management fees from subsidiaries | $ 17,367 | $ 4,980 |
| Other income | 819 | 190 |
| Total revenue | 18,186 | 5,170 |
| **Expenses** | | |
| Operating expenses | 14,133 | 14,365 |
| Interest expense | 3,079 | 2,816 |
| Total expenses | 17,212 | 17,181 |
| Income (loss) before equity in earnings (losses) of subsidiaries and income tax expense (benefit) | 974 | (12,011) |
| Income tax expense (benefit) | 73 | (4,078) |
| Income (loss) before equity earnings (losses) of subsidiaries | 901 | (7,933) |
| Equity earnings (losses) in subsidiaries | (26,805) | (2,748) |
| **Net income (loss)** | (25,904) | (10,681) |
| **Other Comprehensive Income** | | |
| Equity in other comprehensive income (loss) of subsidiaries | 2,312 | (16,093) |
| **Total Comprehensive income (loss)** | $ (23,592) | $ (26,774) |

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, | |
|---|---|---|
| | 2023 | 2022 |
| **Cash Flows from Operating Activities** | | |
| Net income (loss) | $ (25,904) | $ (10,681) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 545 | 436 |
| Equity in undistributed (income) loss of subsidiaries | 26,805 | 2,748 |
| Stock-based compensation expense | 190 | 211 |
| Deferred income tax expense | (3,806) | 3,884 |
| Other (gain) loss | — | — |
| Changes in operating assets and liabilities: | | |
| Due from subsidiaries | (6,318) | 2,699 |
| Due from Affiliate | 80 | 107 |
| Current income tax recoverable | — | — |
| Other assets | 860 | 62 |
| Other liabilities | (73) | (203) |
| Net cash provided by (used in) operating activities | (7,621) | (737) |
| **Cash Flows From Investing Activities** | | |
| Contributions to subsidiaries | 1,019 | 4,000 |
| Dividends received from subsidiaries | — | — |
| Purchases of investments | — | — |
| Purchases of property and equipment | — | — |
| Net cash provided by (used in) investing activities | 1,019 | 4,000 |
| **Cash Flows From Financing Activities** | | |
| Proceeds received from issuance of shares of preferred stock | 6,000 | — |
| Proceeds received from issuance of shares of common stock | — | 5,000 |
| Proceeds from issuance of long-term debt | 10,727 | — |
| Repurchase of common stock | (3) | 10 |
| Borrowings under debt arrangements | — | 5,000 |
| Repayment of borrowings under debt arrangements | — | (5,000) |
| Paydown of long-term debt | (13,971) | — |
| Debt issuance costs | (1,999) | — |
| Net cash provided by financing activities | 754 | 5,010 |
| Net increase (decrease) in cash | (5,848) | 8,273 |
| Cash at beginning of period | 9,022 | 749 |
| Cash at end of period | $ 3,174 | $ 9,022 |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Interest paid | 2,949 | 2,979 |
| Preferred stock dividends declared but not paid at end of period | 19 | — |

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 $1.4 million in cash dividends from RCIC in 2023. The Parent received a $10.8 million dividend from CIS during the fourth quarter of 2022.

## 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.

As of December 31, 2023, the surplus note was adjusted to a fair value of $6.8 million as a result of KBRA downgrading CIC's surplus note rating from BBB- to BB+. This change in CIC's rating required a change in the statutory statement presentation from a cost basis to a fair value basis of accounting.

## Schedule V
## Conifer Holdings, Inc. and Subsidiaries
## Valuation and Qualifying Accounts
## For the Years Ended December 31, 2023 and 2022
## (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** | | | | | |
| 2023 | 21,663 | 7,254 | (904) | — | 28,013 |
| 2022 | 14,594 | 3,715 | 3,354 | — | 21,663 |

**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 | |
| 3.2 | Amended and Restated Bylaws of Conifer Holdings, Inc. | S-1A | September 30, 2015 | 3.4 | July 30, 2015 | |
| 3.3 | Certificate of Designation of Series A Preferred Stock | 8-K | | 3.1 | December 22, 2023 | |
| 4.1 | Description of Securities | | | | | |
| 4.2 | Indenture dated September 24, 2018, by and between the Company and Wilmington Trust, National Association, as trustee | 8-K | | 4.1 | September 24, 2018 | |
| 4.3 | Form of Note (included in Exhibit A to the Second Supplemental Indenture) | 8-K | | 4.3 | August 8, 2023 | |
| 4.4 | Second Supplemental Indenture dated August 8, 2023, by and between the Company and Wilmington Trust, National Association, as trustee | | | | | |
| 10.6 | 2015 Omnibus Incentive Plan | S-1 | | 10.2 | July 2, 2015 | |
| 10.7 | Lease Agreement, dated June 14, 2022 | | | | | |
| 10.8 | Limited Waiver Regarding Second Amended and Restated Note Purchase Agreement | | | | | |
| 10.12 | Employment agreement - Nicholas J. Petcoff | | | | | |
| 10.13 | Employment agreements including 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 |
| 10.24 | 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 | 10-Q | June 30, 2021 | 10.28 | August 11, 2021 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | between the company and the Huntington National Bank | | | | | |
| 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 | |
| 10.30 | Purchase Agreement, dated December 20, 2023, by and between Conifer Holdings, Inc. and Clarkston Capital, LLC | 8-K | | 10.1 | December 22, 2023 | |
| 10.31 | Second Amended and Restated Note Purchase Agreement dated as of September 30, 2023 between the Company and Elanus Capital Investment Master SP Series 3 | 10-Q | September 30, 2023 | 10.1 | November 11, 2023 | |
| 21.1 | List of Subsidiaries of the Company | | | | | * |
| 23.1 | Consent of Plante Moran PLLC, Independent Registered Public Accounting Firm | | | | | * |
| 31.1 | Section 302 Certification — CEO | | | | | * |
| 31.2 | Section 302 Certification — CFO | | | | | * |
| 32.1* | Section 906 Certification — CEO | | | | | * |
| 32.2* | Section 906 Certification — CFO | | | | | * |
| 97 | Conifer Clawback Policy | | | | | * |
| 99.1 | Report of Independent Registered Public Accounting Firm on Supplemental Information | | | | | |
| 101.INS | inline XBRL Instance Document | | | | | * |
| 101.SCH | inline XBRL Taxonomy Extension Schema With Embedded Linkbases Document | | | | | * |
| 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.

## ITEM 16. Form 10-K Summary

None.

## 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/ Nicholas J. Petcoff
Nicholas J. Petcoff
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: April 1, 2024

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/ Nicholas J. Petcoff<br>Nicholas J. Petcoff | Chief Executive Officer<br>(Principal Executive Officer) | April 1, 2024 |
| /s/ Harold J. Meloche<br>Harold J. Meloche | Chief Financial Officer and Treasurer<br>(Principal Accounting and Financial Officer) | April 1, 2024 |
| /s/ Isolde O'Hanlon<br>Isolde O'Hanlon | Director, Board Chair | April 1, 2024 |
| /s/ Jeffrey Hakala<br>Jeffrey Hakala | Director | April 1, 2024 |
| /s/ Gerald W. Hakala<br>Gerald W. Hakala | Director | April 1, 2024 |
| /s/ Timothy Lamothe<br>Timothy Lamothe | Director | April 1, 2024 |
| /s/ Richard J. Williams, Jr.<br>Richard J. Williams, Jr. | Director | April 1, 2024 |
| /s/ Joseph D. Sarafa<br>Joseph D. Sarafa | Director | April 1, 2024 |
| /s/ J. Grant Smith<br>J. Grant Smith | Director | April 1, 2024 |
| /s/ John Melstrom<br>John Melstrom | Director | April 1, 2024 |
| /s/ James G. Petcoff<br>James G. Petcoff | Director | April 1, 2024 |

## Management Team

Nicholas J. Petcoff
Chief Executive Officer & Director

Brian J. Roney
President

Harold J. Meloche
Chief Financial Officer

## Board of Directors

Isolde G. O'Hanlon
Chair of the Board of Directors

Nicholas J. Petcoff
Director & Chief Executive Officer

Gerald W. Hakala
Director

Jeffrey A. Hakala
Director

Timothy M. Lamothe
Director

John W. Melstrom
Director

James G. Petcoff
Director

Joseph D. Sarafa
Director

J. Grant Smith
Director

R. Jamison Williams, Jr.
Director

*Our mission is to exceed our clients' needs with tailored insurance products delivered with exceptional customer service.*

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White Pine Insurance Company

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