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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

o 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 001-37973

NI HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

NORTH DAKOTA **(State or other jurisdiction of incorporation or organization)**	**81-2683619** **(IRS Employer Identification No.)**
1101 First Avenue North **Fargo, North Dakota** **(Address of principal executive offices)**	**58102** **(Zip Code)**

(701) 298-4200
Registrant's telephone number, including area code

Not Applicable
(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes No o

Indicate by checkmark 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	o	
Accelerated filer	o	
Non-accelerated filer	x	(Do not check if a smaller reporting company)
Smaller reporting company	o	
Emerging growth company	x	

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. o

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes No ☒

The number of shares of Registrant's common stock outstanding on August 3, 2018 was 22,359,844. No preferred shares are issued or outstanding.

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CERTAIN IMPORTANT INFORMATION

Unless the context otherwise requires, as used in this quarterly report on Form 10-Q:

- "NI Holdings", "the Company", "we", "us", and "our" refer to NI Holdings, Inc., together with Nodak Insurance and its subsidiaries and Battle Creek Mutual Insurance Company, for periods discussed after completion of the conversion, and for periods discussed prior to completion of the conversion refer to Nodak Mutual Insurance Company and all of its subsidiaries and Battle Creek Mutual Insurance Company;
- "Nodak Mutual Group" refers to Nodak Mutual Group, Inc., which is the majority shareholder of NI Holdings;
- the "conversion" refers to the series of transactions by which Nodak Mutual Insurance Company converted from a mutual insurance company to a stock insurance company, as Nodak Insurance Company, and became a wholly-owned subsidiary of NI Holdings, an intermediate stock holding company formed on the date of conversion;
- "Nodak Stock" refers to Nodak Insurance Company, the successor company to Nodak Mutual Insurance Company after the conversion;
- "Nodak Mutual" refers to Nodak Mutual Insurance Company, the predecessor company to Nodak Insurance Company prior to the conversion;
- "Nodak Insurance" refers to Nodak Stock or Nodak Mutual interchangeably;
- "members" refers to the policyholders of Nodak Insurance, who are the named insureds under insurance policies issued by Nodak Insurance; and
- "Battle Creek" refers to Battle Creek Mutual Insurance Company. Battle Creek is not a subsidiary of Nodak Insurance, but all of its insurance policies are reinsured by Nodak Insurance through a 100% quota-share reinsurance agreement and Battle Creek is controlled by Nodak Insurance as a result of an affiliation agreement between Battle Creek and Nodak Insurance. Battle Creek is consolidated with Nodak Insurance for financial reporting purposes.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, which can be identified by the use of such words as "estimate", "project", "believe", "could", "may", "intend", "anticipate", "plan", "seek", "expect" and similar expressions. These forward-looking statements include:

- statements of goals, intentions and expectations;
- statements regarding prospects and business strategy; and
- estimates of future costs, benefits and results.

The forward-looking statements are subject to numerous assumptions, risks and uncertainties, including, among other things, the factors discussed under the heading "Risk Factors" in this Quarterly Report and our Annual Report on Form 10-K that could affect the actual outcome of future events.

All of these factors are difficult to predict and many are beyond our control. These important factors include those discussed under "Risk Factors" and those listed below:

- material changes to the federal crop insurance program;
- future economic conditions in the markets in which we compete that are less favorable than expected;
- the effect of legislative, judicial, economic, demographic and regulatory events in the jurisdictions where we do business;
- our ability to enter new markets successfully and capitalize on growth opportunities either through acquisitions or the expansion of our producer network;
- financial market conditions, including, but not limited to, changes in interest rates and the stock markets causing a reduction of investment income or investment gains and a reduction in the value of our investment portfolio;

- heightened competition, including specifically the intensification of price competition, the entry of new competitors and the development of new products by new or existing competitors, resulting in a reduction in the demand for our products;
- changes in general economic conditions, including inflation, unemployment, interest rates and other factors;
- estimates and adequacy of loss reserves and trends in loss and loss adjustment expenses;
- changes in the coverage terms required by state laws with respect to minimum auto liability insurance, including higher minimum limits;
- our inability to obtain regulatory approval of, or to implement, premium rate increases;
- our ability to obtain reinsurance coverage at reasonable prices or on terms that adequately protect us and to collect amounts that we believe we are entitled to under such reinsurance;
- the potential impact on our reported net income that could result from the adoption of future accounting standards issued by the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, or other standard-setting bodies;
- unanticipated changes in industry trends and ratings assigned by nationally recognized rating organizations;
- the potential impact of fraud, operational errors, systems malfunctions, or cybersecurity incidents;
- adverse litigation or arbitration results; and
- adverse changes in applicable laws, regulations or rules governing insurance holding companies and insurance companies, and tax or accounting matters including limitations on premium levels, increases in minimum capital and reserves, and other financial viability requirements, and changes that affect the cost of, or demand for our products.

Because forward-looking information is subject to various risks and uncertainties, actual results may differ materially from that expressed or implied by the forward-looking information.

PART I. -
FINANCIAL INFORMATION

Item 1. - Financial Statements

NI Holdings, Inc.
Unaudited Consolidated Balance Sheets
(dollar amounts in thousands, except par value)

	June 30, 2018	December 31, 2017
Assets:		
Cash and cash equivalents	$ 30,955	$ 27,594
Fixed income securities, at fair value	241,587	236,758
Equity securities, at fair value	49,805	47,561
Other investments	1,954	1,972
Total cash and investments	324,301	313,885
Premiums and agents' balances receivable	74,175	25,632
Deferred policy acquisition costs	12,190	8,859
Reinsurance premiums receivable	2,256	—
Reinsurance recoverables on losses	3,601	4,128
Federal income tax recoverable	13	—
Accrued investment income	1,832	1,996
Property and equipment	6,019	5,877
Receivable from Federal Crop Insurance Corporation	11,130	10,501
Goodwill	2,628	2,628
Other assets	3,253	3,482
Total assets	$ 441,398	$ 376,988
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 63,376	$ 45,890
Unearned premiums	99,954	63,262
Reinsurance payable	3,099	428
Federal income tax payable	—	991
Deferred income taxes, net	695	2,539
Accrued expenses and other liabilities	14,708	8,305
Commitments and contingencies	—	—
Total liabilities	181,832	121,415
Equity:		
Common stock, $0.01 par value, authorized: 25,000,000 shares; issued: 23,000,000 shares; and outstanding: 2018 – 22,359,844 shares, 2017 – 22,337,644 shares	230	230
Preferred stock, without par value, authorized 5,000,000 shares, no shares issued or outstanding	—	—
Additional paid-in capital	93,832	93,496
Unearned employee stock ownership plan shares	(2,157)	(2,157)
Retained earnings	159,213	152,865
Accumulated other comprehensive income, net of income taxes	12,932	15,998
Treasury stock, at cost, 2018 – 424,471 shares, 2017 – 446,671 shares	(7,638)	(8,037)
Non-controlling interest	3,154	3,178
Total equity	259,566	255,573
Total liabilities and equity	$ 441,398	$ 376,988

The accompanying notes are an integral part of these consolidated financial statements.

NI Holdings, Inc.
Unaudited Consolidated Statements of Operations
(dollar amounts in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Net premiums earned	$ 50,677	$ 45,653	$ 86,789	$ 78,462
Fee and other income	470	321	847	668
Net investment income	1,523	1,303	2,892	2,302
Net realized capital gain on investments	250	339	719	955
Total revenues	52,920	47,616	91,247	82,387
Expenses:				
Losses and loss adjustment expenses	40,721	36,230	59,570	53,951
Amortization of deferred policy acquisition costs	8,618	6,301	15,657	11,310
Other underwriting and general expenses	3,184	5,124	8,022	10,134
Total expenses	52,523	47,655	83,249	75,395
Income (loss) before income taxes	397	(39)	7,998	6,992
Income taxes (benefit)	141	(156)	1,590	2,126
Net income	256	117	6,408	4,866
Net income (loss) attributable to non-controlling interest	30	(12)	60	48
Net income attributable to NI Holdings, Inc.	$ 226	$ 129	$ 6,348	$ 4,818
Basic earnings per common share	$ 0.01	$ 0.01	$ 0.28	$ 0.21
Diluted earnings per common share	$ 0.01	$ 0.01	$ 0.28	$ 0.21

The accompanying notes are an integral part of these consolidated financial statements.

NI Holdings, Inc.
Unaudited Consolidated Statements of Comprehensive Income (Loss)
(dollar amounts in thousands)

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Attributable to Non-Controlling Interest	Attributable to NI Holdings, Inc.	Total	Attributable to Non-Controlling Interest	Attributable to NI Holdings, Inc.	Total
Net income	$ 30	$ 226	$ 256	$ 60	$ 6,348	$ 6,408
Other comprehensive income (loss), before income taxes:						
Holding gains (losses) on investments	(24)	757	733	(106)	(3,162)	(3,268)
Reclassification adjustment for net realized capital loss (gain) included in net income	—	(250)	(250)	—	(719)	(719)
Other comprehensive income (loss), before income taxes	(24)	507	483	(106)	(3,881)	(3,987)
Income tax benefit (expense) related to items of other comprehensive income	5	(106)	(101)	22	815	837
Other comprehensive income (loss), net of income taxes	(19)	401	382	(84)	(3,066)	(3,150)
Comprehensive income (loss)	$ 11	$ 627	$ 638	$ (24)	$ 3,282	$ 3,258

	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	Attributable to Non-Controlling Interest	Attributable to NI Holdings, Inc.	Total	Attributable to Non-Controlling Interest	Attributable to NI Holdings, Inc.	Total
Net income (loss)	$ (12)	$ 129	$ 117	$ 48	$ 4,818	$ 4,866
Other comprehensive income, before income taxes:						
Holding gains on investments	40	2,955	2,995	14	3,697	3,711
Reclassification adjustment for net realized capital loss (gain) included in net income	27	(366)	(339)	27	(982)	(955)
Other comprehensive income, before income taxes	67	2,589	2,656	41	2,715	2,756
Income tax (expense) benefit related to items of other comprehensive income	(23)	(906)	(929)	(14)	(950)	(964)
Other comprehensive income, net of income taxes	44	1,683	1,727	27	1,765	1,792
Comprehensive income	$ 32	$ 1,812	$ 1,844	$ 75	$ 6,583	$ 6,658

The accompanying notes are an integral part of these consolidated financial statements.

NI Holdings, Inc.
Unaudited Consolidated Statement of Changes in Equity
(dollar amounts in thousands)

	Six Months Ended June 30, 2018							
	Common Stock	**Additional Paid-in Capital**	**Unearned Employee Stock Ownership Plan Shares**	**Retained Earnings**	**Accumulated Other Comprehensive Income, Net of Income Taxes**	**Treasury Stock**	**Non-Controlling Interest**	**Total Equity**
Balance, January 1, 2018	$ 230	$ 93,496	$ (2,157)	$ 152,865	$ 15,998	$ (8,037)	$ 3,178	$ 255,573
Net income	—	—	—	6,348	—	—	60	6,408
Other comprehensive (loss), net of income taxes	—	—	—	—	(3,066)	—	(84)	(3,150)
Share-based compensation	—	735	—	—	—	—	—	735
Issuance of vested award shares	—	(399)	—	—	—	399	—	—
Balance, June 30, 2018	$ 230	$ 93,832	$ (2,157)	$ 159,213	$ 12,932	$ (7,638)	$ 3,154	$ 259,566

The accompanying notes are an integral part of these consolidated financial statements.

NI Holdings, Inc.
Unaudited Consolidated Statements of Cash Flows
(dollar amounts in thousands)

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Cash flows from operating activities:		
Net income	$ 6,408	$ 4,866
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized capital gain on investments	(719)	(955)
Deferred income tax expense	(1,006)	—
Depreciation of property and equipment	243	249
Amortization of intangibles	—	21
Share-based compensation	735	—
Amortization of deferred policy acquisition costs	15,657	11,310
Deferral of policy acquisition costs	(18,988)	(16,494)
Net amortization of premiums and discounts on investments	631	593
Changes in assets and liabilities which provided (used) cash:		
Premiums and agents’ balances receivable	(48,543)	(48,894)
Reinsurance receivables / payables	415	3,531
Reinsurance recoverables on losses	527	(3,200)
Accrued investment income	164	(547)
Receivable from Federal Crop Insurance Corporation	(629)	4,264
Federal income tax recoverable / payable	(1,004)	276
Other assets	229	912
Unpaid losses and loss adjustment expenses	17,486	12,987
Unearned premiums	36,692	34,749
Accrued expenses and other liabilities	6,401	6,781
Net cash provided by operating activities	14,699	10,449
Cash flows from investing activities:		
Proceeds from sales of fixed income securities	38,286	11,712
Proceeds from sales of equity securities	5,033	2,904
Purchases of fixed income securities	(48,733)	(88,151)
Purchases of equity securities	(5,559)	(19,252)
Purchases of property and equipment, net	(383)	(542)
Other	18	2
Net cash used in investing activities	(11,338)	(93,327)
Cash flows from financing activities:		
Proceeds from issuance of common stock	—	93,145
Purchases of treasury stock	—	(8,037)
Loan to employee stock ownership plan	—	(2,400)
Net cash provided by financing activities	—	82,708
Net increase (decrease) in cash and cash equivalents	3,361	(170)
Cash and cash equivalents at beginning of period	27,594	18,318
Cash and cash equivalents at end of period	$ 30,955	$ 18,148

The Company paid $3,600 and $1,850 in federal income taxes during the six months ended June 30, 2018 and 2017, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

NI Holdings, Inc.
Notes to Unaudited Consolidated Financial Statements
(dollar amounts in thousands, except per share amounts)

1. Organization

NI Holdings, Inc. ("NI Holdings") is a North Dakota business corporation that is the stock holding company of Nodak Insurance Company and became such in connection with the conversion of Nodak Mutual Insurance Company from a mutual to stock form of organization and the creation of a mutual holding company. The conversion was consummated on March 13, 2017. Immediately following the conversion, all of the outstanding shares of common stock of Nodak Insurance Company (the successor to Nodak Mutual Insurance Company) were issued to Nodak Mutual Group, Inc., which then contributed the shares to NI Holdings in exchange for 55% of the outstanding shares of common stock of NI Holdings. Nodak Insurance Company then became a wholly-owned stock subsidiary of NI Holdings. Prior to completion of the conversion, NI Holdings conducted no business and had no assets or liabilities. As a result of the conversion, NI Holdings became the holding company for Nodak Insurance Company and its existing subsidiaries. The newly issued shares of NI Holdings were available for public trading on March 16, 2017.

The consolidated financial statements of NI Holdings consist primarily of five entities: Nodak Insurance Company ("Nodak Insurance", formerly Nodak Mutual Insurance Company prior to the conversion), Nodak Agency, Inc. ("Nodak Agency"), American West Insurance Company ("American West"), Primero Insurance Company ("Primero"), and an affiliated company, Battle Creek Mutual Insurance Company ("Battle Creek").

Nodak Insurance is the largest domestic property and casualty insurance company in North Dakota. Nodak Insurance was incorporated on April 15, 1946 under the laws of North Dakota, and benefits from a strong marketing affiliation with the North Dakota Farm Bureau ("NDFB"). Nodak Insurance specializes in providing private passenger auto, homeowners, farmowners, commercial, crop hail, and Federal multi-peril crop insurance coverages.

Nodak Agency, a wholly-owned subsidiary of Nodak Insurance, is an inactive shell corporation.

American West, a wholly-owned subsidiary of Nodak Insurance, is a property and casualty insurance company licensed in eight states in the Midwest and Western regions of the United States. American West began writing policies in 2002 and primarily writes personal auto, homeowners, and farm coverages in South Dakota. American West also writes personal auto in North Dakota, as well as crop hail and Federal multi-peril crop insurance coverages in Minnesota and South Dakota.

Primero is a wholly-owned subsidiary of Tri-State, Ltd. Tri-State, Ltd. is an inactive shell corporation 100% owned by Nodak Insurance. Primero is a property and casualty insurance company writing non-standard automobile coverage in the states of Nevada, Arizona, North Dakota and South Dakota.

Battle Creek is controlled by Nodak Insurance via a surplus note and 100% quota-share agreement. The terms of the surplus note and quota-share agreement allow Nodak Insurance to appoint two-thirds of the Battle Creek Board of Directors. Battle Creek is a property and casualty insurance company writing personal auto, homeowners, and farm coverages solely in the state of Nebraska.

The same executive management and underwriting personnel administer products, classes of business, pricing practices, and underwriting standards of Nodak Insurance and its insurance subsidiaries. In addition, the insurance companies share a combined business plan to achieve market penetration and underwriting profitability objectives. Distinctions within the products of the insurance companies generally relate to the states in which the risk is located and specific risk profiles targeted within similar classes of business.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the interim periods ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ended December 31, 2018.

Our consolidated financial statements include our accounts and those of our wholly-owned subsidiaries, as well as Battle Creek, an entity we control via contract. We have eliminated all significant inter-company accounts and transactions in consolidation. The terms "we", "us", "our", or "the Company" as used herein refer to the consolidated entity.

3. Summary of Significant Accounting Policies

Use of Estimates:

In preparing our consolidated financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the balance sheet and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates.

We make estimates and assumptions that can have a significant effect on amounts and disclosures we report in our consolidated financial statements. The most significant estimates relate to our reserves for unpaid losses and loss adjustment expenses, earned premiums for crop insurance, valuation of investments, determination of other-than-temporary impairments, valuation allowances for deferred income tax assets, and deferred policy acquisition costs. While we believe our estimates are appropriate, the ultimate amounts may differ from the estimates provided. We regularly review our methods for making these estimates as well as the continuing appropriateness of the estimated amounts, and we reflect any adjustment we consider necessary in our current results of operations.

Variable-Interest Entities:

Any company deemed to be a variable interest entity (“VIE”) is required to be consolidated by the primary beneficiary of the VIE.

We assess our investments in other entities at inception to determine if any meet the qualifications of a VIE. We consider an investment in another company to be a VIE if (a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support, (b) the characteristics of a controlling financial interest are missing (either the ability to make decisions through voting or other rights, the obligation to absorb expected losses of the entity or the right to receive the expected residual returns of the entity), or (c) the voting rights of the equity holders are not proportional to their obligations to absorb the expected losses of the entity and/or the rights to receive the expected residual returns of the entity, and substantially all of the entity’s activities either involve or are conducted on behalf of an investor that has disproportionately few voting rights. Upon the occurrence of certain events, we would reassess our initial determination of whether the investment is a VIE.

We evaluate whether we are the primary beneficiary of each VIE and we consolidate the VIE if we have both (1) the power to direct the economically significant activities of the entity and (2) the obligation to absorb losses of, or the right to receive benefits from, the entity. We consider the contractual agreements that define the ownership structure, distribution of profits and losses, risks, responsibilities, indebtedness, voting rights, and board representation of the respective parties in determining whether we qualify as the primary beneficiary. Our assessment of whether we are the primary beneficiary of a VIE is performed at least annually.

We control Battle Creek via a 100% quota-share reinsurance agreement between Nodak Insurance and Battle Creek, as well as the ability to control a majority of the Board of Directors of Battle Creek. Through the effects of the 100% quota-share agreement with Battle Creek, we are considered the primary beneficiary of Battle Creek’s operating results excluding investment income, bad debt expense, and income taxes. Therefore, we consolidate the financial statements of Battle Creek, and Battle Creek’s policyholders’ interest in Battle Creek is reflected as a non-controlling interest in Equity in our Consolidated Balance Sheet.

Cash and Cash Equivalents:

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. Cost approximates fair value for these short-term investments.

Investments:

We have categorized our investment portfolio as “available-for-sale” and have reported the portfolio at fair value, with unrealized gains and losses, net of income taxes, reported in accumulated other comprehensive income. Fair values are based on quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. Amortization of premium and accretion of discount are computed using an effective interest method. Realized gains and losses are determined using the specific identification method and included in the determination of net income. Net investment income includes interest and dividend income together with amortization of purchase premiums and discounts, and is net of investment management and custody fees.

We review our investments each quarter to determine whether a decline in fair value below the amortized cost basis is other than temporary. Accordingly, we assess whether we intend to sell or it is more likely than not that we will be required to sell a security before recovery of its amortized cost basis. For fixed income securities that are considered other-than-temporarily impaired and that we do not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, we separate the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of its expected future cash flows discounted at the security's effective yield. The remaining difference between the security's fair value and the present value of future expected cash flows is due to factors that are not credit related and, therefore, is not required to be recognized as losses in the Consolidated Statement of Operations, but is recognized in other comprehensive income.

We classify each fair value measurement at the appropriate level in the fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted market price in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to unobservable inputs (Level III measurements). An asset's or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation.

Level I – Quoted price in active markets for identical assets and liabilities.

Level II – Quoted prices in markets that are not active or inputs that are observable either directly or indirectly. Level II inputs include quoted prices for similar assets or liabilities other than quoted in prices in Level I, quoted prices in markets that are not active, or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level III – Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Unobservable inputs reflect the reporting entity's own assumptions that market participants would use in pricing the asset or liability. Level III assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Fair Value of Other Financial Instruments:

Our other financial instruments, aside from investments, are cash and cash equivalents, premiums and agents' balances receivable, and accrued expenses and accounts payable. The carrying amounts for cash and cash equivalents, premiums and agents' balances receivable, and accrued expenses and accounts payable approximate their fair value based on their short-term nature. Other invested assets that do not have observable inputs and little or no market activity are carried on a cost basis. The carrying value of these other invested assets was $1,954 at June 30, 2018 and $1,972 at December 31, 2017.

Reclassifications:

Certain amounts in the 2017 consolidated financial statements have been reclassified to conform to the 2018 presentation. This includes a change in the Company's reportable segments that was made in the fourth quarter of the year ended December 31, 2017. The prior segments were non-standard auto, crop, and other property and casualty. The new segments used throughout this report are private passenger auto, non-standard auto, home and farm, crop, and all other.

Revenue Recognition:

We record premiums written at policy inception and recognize them as revenue on a pro rata basis over the policy term or, in the case of crop insurance, over the period of risk. The portion of premiums that could be earned in the future is deferred and reported as unearned premiums. When policies lapse, the Company reverses the unearned portion of the written premium and removes the applicable unearned premium. Policy-related fee income is recognized when collected.

The Company uses the direct write-off method for recognizing bad debts. Accounts are deemed to be delinquent after 60 days except for those accounts associated with amounts due from insureds for premiums, in which case policy cancellation procedures are commenced in accordance with state insurance regulations. Any earned but uncollected premiums are written off immediately upon the effective date of policy cancellation.

Policy Acquisition Costs:

We defer our policy acquisition costs, consisting primarily of commissions, premium taxes and certain other underwriting costs, reduced by ceding commissions, which vary with and relate directly to the production of business. We amortize these deferred policy acquisition costs over the period in which we earn the premiums. The method we follow in computing deferred policy acquisition costs limits the amount of such deferred costs to their estimated realizable value, which gives effect to the premium to be earned, related investment income, losses and loss adjustment expenses, and certain other costs we expect to incur as we earn the premium.

Property and Equipment:

We report property and equipment at cost less accumulated depreciation. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets.

Losses and Loss Adjustment Expenses:

Liabilities for unpaid losses and loss adjustment expenses are estimates at a given point in time of the amounts we expect to pay with respect to policyholder claims based on facts and circumstances then known. At the time of establishing our estimates, we recognize that our ultimate liability for losses and loss adjustment expenses will exceed or be less than such estimates. We base our estimates of liabilities for unpaid losses and loss adjustment expenses on assumptions as to future loss trends, expected claims severity, judicial theories of liability, and other factors. During the loss adjustment period, we may learn additional facts regarding certain claims, and, consequently, it often becomes necessary for us to refine and adjust our estimates of the liability. We reflect any adjustments to our liabilities for unpaid losses and loss adjustment expenses in our operating results in the period in which we determine the need for a change in the estimates.

We maintain liabilities for unpaid losses and loss adjustment expenses with respect to both reported and unreported claims. We establish these liabilities for the purpose of covering the ultimate costs of settling all losses, including investigation and litigation costs. We base the amount of our liability for reported losses primarily upon a case-by-case evaluation of the type of risk involved, knowledge of the circumstances surrounding each claim, and the insurance policy provisions relating to the type of loss our policyholder incurred. We determine the amount of our liability for unreported losses and loss adjustment expenses on the basis of historical information by line of insurance. Inflation is not explicitly selected in the loss reserve analysis. However, historical inflation is embedded in the estimated loss reserving function through analysis of costs and trends and reviews of historical reserving results. We closely monitor our liabilities and update them periodically using new information on reported claims and a variety of statistical techniques. We do not discount our liabilities for unpaid losses and loss adjustment expense.

Reserve estimates can change over time because of unexpected changes in assumptions related to our external environment and, to a lesser extent, assumptions as to our internal operations. Assumptions related to our external environment include the absence of significant changes in tort law and the legal environment which may impact liability exposure, the trends in judicial interpretations of insurance coverage and policy provisions, and the rate of loss cost inflation. Internal assumptions include consistency in the recording of premium and loss statistics, consistency in the recording of claims, payment and case reserving methodologies, accurate measurement of the impact of rate changes and changes in policy provisions, consistency in the quality and characteristics of business written within a given line of business, and consistency in reinsurance coverage and collectability of reinsured losses, among other items. To the extent we determine that underlying factors impacting our assumptions have changed, we attempt to make appropriate adjustments for such changes in our reserves. Accordingly, our ultimate liability for unpaid losses and loss adjustment expenses will likely differ from the amount recorded.

Income Taxes:

With the exception of Battle Creek, which files a stand-alone federal income tax return, we currently file a consolidated federal income tax return. For the year ended December 31, 2016, the consolidated federal income tax return included Nodak Mutual Insurance Company and its wholly-owned subsidiaries. For the year ended December 31, 2017 and thereafter, the consolidated federal income tax return included and will include thereafter NI Holdings and its wholly-owned subsidiaries.

The Company reports tax-related interest and penalties, if any, as part of income tax expense in the year such amounts are determinable.

We account for deferred income taxes using the asset and liability method. The objective of the asset and liability method is to establish deferred income tax assets and liabilities for the temporary differences between the financial reporting basis and the income tax basis of our assets and liabilities at enacted tax rates expected to be in effect when we realize or settle such amounts.

Accounting guidance requires that companies re-measure existing deferred income tax assets (including loss carryforwards) and liabilities when a change in tax rate occurs, and record an offset for the net amount of the change as a component of income tax expense from continuing operations in the period of enactment. The guidance also requires any change to a previously recorded valuation allowance as a result of re-measuring existing temporary differences and loss carryforwards to be reflected as a component of income tax expense from continuing operations.

The Company has elected to reclassify any tax effects stranded in accumulated other comprehensive income as a result of a change in income tax rates to retained earnings.

Credit Risk:

Our primary investment objective is to earn competitive returns by investing in a diversified portfolio of securities. Our portfolio of fixed income securities and, to a lesser extent, short-term investments, is subject to credit risk. We define this risk as the potential loss in fair value resulting from adverse changes in the borrower's ability to repay the debt. We manage this risk by performing an analysis of prospective investments and through regular reviews of our portfolio by our investment staff and advisors. We also limit the amount of our total investment portfolio that we invest in any one security.

Property and liability insurance coverages are marketed through captive agents in North Dakota and through independent insurance agencies located throughout all operating areas. All business is billed directly to policyholders.

We maintain cash balances primarily at one bank, which are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250. During the normal course of business, balances are maintained above the FDIC insurance limit. The Company maintains short-term investment balances in investment grade money market accounts that are insured by the Securities Investor Protection Corporation ("SIPC") up to $500. On occasion, balances for these accounts are maintained in excess of the SIPC insurance limit.

Reinsurance:

The Company limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks to other insurers or reinsurers, either on an automatic basis under general reinsurance contracts knows as "treaties" or by negotiation on substantial individual risks. Ceded reinsurance is treated as the risk and liability of the assuming companies.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. In the event that all or any of the reinsuring companies might be unable to meet their obligations under existing reinsurance agreements, the Company would be liable for such defaulted amounts.

Goodwill and Other Intangible Assets:

Goodwill represents the excess of the purchase price over the underlying fair value of acquired entities. When completing acquisitions, we seek also to identify separately identifiable intangible assets that we have acquired. We assess goodwill and intangible assets with an indefinite useful life for impairment annually. We also assess goodwill and other intangible assets for impairment upon the occurrence of certain events. In making our assessment, we consider a number of factors including operating results, business plans, economic projections, anticipated future cash flows, and current market data. Inherent uncertainties exist with respect to these factors and to our judgment in applying them when we make our assessment. Impairment of goodwill and other intangible assets could result from changes in economic and operating conditions in future periods. We did not record any impairments of goodwill or other intangible assets during the three and six month periods ended June 30, 2018 and 2017.

Goodwill arising from the acquisition of Primero in 2014 represents the excess of the purchase price over the fair value of the net assets acquired, and is reported separately in the Consolidated Balance Sheet. The purchase price in excess of the fair value of net assets acquired was negotiated at arms-length with an unrelated party and was based upon the strategic decision by Company management to expand both the geographic footprint and product lines of the Company. The nature of the business acquired was such that there were limited intangible assets not reflected in the net assets acquired. The purchase price was paid with a combination of cash and cancellation of obligations owed to the acquired company by the sellers. The goodwill which arose from this transaction is included in the basis of the net assets acquired and is not deductible for income tax purposes.

4. Acquisition of Direct Auto Insurance Company

On May 31, 2018, the Company entered into an agreement to acquire 100% of the stock of Direct Auto Insurance Company ("Direct Auto") from private shareholders. The agreement contains customary representations, warranties, and covenants by the Company and the other parties to the agreement. Closing of the transaction is expected later this year, subject to the receipt of regulatory approvals and other customary closing conditions.

Direct Auto is headquartered in Chicago, Illinois and underwrites specialty automobile insurance in the state of Illinois through independent agents. Following the completion of the transaction, it is expected that the current president (who is also one of the principal shareholders) of Direct Auto will continue to manage the Direct Auto insurance operations along with the current staff and management team.

It is expected that Direct Auto will become part of the Company's non-standard auto business segment as of the closing date.

We account for business acquisitions in accordance with the acquisition method of accounting, which requires, among other things, that most assets acquired, liabilities assumed, and contingent consideration be recognized at their fair values as of the acquisition date, which is expected to be the closing date for the Direct Auto transaction. During the measurement period, adjustments to provisional purchase price allocations are recognized if new information is obtained about the facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as it is determined that no more information is obtainable, but in no case shall the measurement period exceed one year from the acquisition date.

5. Recent Accounting Pronouncements

As an emerging growth company, we have elected to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act. The following discussion includes effective dates for both public business entities and emerging growth companies, as well as whether specific guidance may be adopted early.

Adopted

On July 1, 2017, the Company early adopted amended guidance from the Financial Accounting Standards Board (the "FASB") on goodwill impairment testing. Under the amended guidance, the optional qualitative assessment (Step 0) and the first step of the quantitative assessment (Step 1) remain unchanged. Step 2 is eliminated. As a result, for annual impairment testing or in the event a test is required prior to the annual test, the Company will use Step 0 to determine if an impairment might exist and Step 1 to determine the amount of goodwill impairment. An impairment loss will be recognized for the amount by which the reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill in the reporting unit. This guidance is effective for annual and interim reporting periods beginning after December 15, 2019 for public business entities. For private companies and emerging growth companies, this guidance is also effective for annual and interim reporting periods beginning after December 15, 2021. Early adoption is permitted for all entities beginning in 2017. The Company early adopted this guidance on a prospective basis as a change in accounting principle, therefore at the date of adoption there was no impact to the Company's financial position or results of operations.

In March 2016, the FASB issued amended guidance to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the Consolidated Statement of Cash Flows. All excess income tax benefits and income tax deficiencies should be recognized as income tax expense or benefit in the Consolidated Statement of Operations, instead of affecting additional paid-in-capital on the Consolidated Balance Sheet. These discrete income tax items should be classified along with other income tax cash flows as an operating activity on the Consolidated Statement of Cash Flows. In addition, cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity. This guidance is effective for annual periods beginning after December 15, 2016 for public business entities. For private companies and emerging growth companies, this guidance is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for all entities in any period. An entity that elects early adoption must adopt all amendments in the same period. Amendments requiring recognition of excess income tax benefits and income tax deficiencies in the Consolidated Statement of Operations should be applied prospectively. The Company early adopted this guidance on a prospective basis for the year ended December 31, 2017. At the date of adoption, there was an immaterial impact to the computation of diluted earnings per share, but no impact to the Company's financial position or results of operations.

In February 2018, the FASB issued new guidance to provide companies the option to reclassify income tax effects that are stranded in accumulated other comprehensive income as a result of income tax reform to retained earnings. This guidance is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted for reporting periods for which financial statements have not yet been issued or made available for issuance. In the period of adoption, an entity would be able to choose whether to apply the amendments retrospectively or in the period of adoption. The Company elected to early adopt this guidance on a prospective basis, resulting in a $2,717 reclassification of stranded income tax effects from accumulated other comprehensive income to retained earnings within the Equity section of the Consolidated Balance Sheet as of December 31, 2017. There was no impact to the Company's financial position, results of operations, or cash flows.

Not Yet Adopted

In May 2014, the FASB issued guidance that establishes the manner in which an entity recognizes the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. While the guidance will replace most existing GAAP revenue recognition guidance, the scope of the guidance excludes insurance contracts. The Company has reviewed its sources of revenues, and has determined that no material revenues are derived from non-insurance contracts and thus subject to the new revenue recognition guidance. This guidance is effective for annual and interim reporting periods beginning after December 15, 2017 for public business entities. For private companies and emerging growth companies, this guidance is effective for annual reporting periods beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted for all entities. We currently believe that this guidance will have no impact on our financial position, results of operations, or cash flows.

In January 2016, the FASB issued amended guidance that generally requires entities to measure equity securities at fair value and recognize changes in fair value in their results of operations. The amended guidance also simplifies the impairment assessment of equity securities without readily determinable fair values by requiring entities to perform a qualitative assessment to identify impairment. The FASB issued other disclosure and presentation improvements related to financial instruments within the guidance. The amended guidance is effective for annual and interim reporting periods beginning after December 15, 2017 for public business entities. For private companies and emerging growth companies, this guidance is effective for annual reporting periods beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted for all non-public entities as of the fiscal year beginning after December 15, 2017, including interim periods within those fiscal years. We are evaluating the requirements of this amended measurement and classification of financial instruments guidance and the potential impact on our financial position, results of operations, and cash flows.

In February 2016, the FASB issued new guidance that requires lessees to recognize leases, including operating leases, on the lessee's Consolidated Balance Sheet, unless a lease is considered a short-term lease. The new guidance also requires entities to make new judgments to identify leases. The new guidance, which replaces the current lease guidance, is effective for annual and interim reporting periods beginning after December 15, 2018 for public business entities. For private companies and emerging growth companies, this guidance is effective for annual reporting periods beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities. We do not expect the adoption of this new guidance to have a significant impact on our financial position, results of operations, or cash flows.

In June 2016, the FASB issued a new standard that will require timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The guidance will require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better form their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the guidance requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Finally, the guidance amends the accounting for credit losses on available-for-sale fixed income securities and purchased financial assets with credit deterioration. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 for public business entities which are SEC filers. For private companies and emerging growth companies, this guidance is effective for annual reporting periods beginning after December 15, 2020 and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted for all entities as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are evaluating the impact this new guidance will have on our financial position, results of operations, and cash flows.

In August and November 2016, the FASB issued amended guidance on the presentation and classification of various items in the Consolidated Statement of Cash Flows. The amendments address specific cash flow issues, including debt prepayments and contingent consideration payments made after a business combination. The amended guidance also requires the Consolidated Statement of Cash Flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Currently, the Consolidated Statement of Cash Flows only explains the change in cash and cash equivalents. The amended guidance is effective for annual and interim reporting periods beginning after December 15, 2017 for public business entities. For private companies and emerging growth companies, this guidance is effective for annual reporting periods beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments are to be applied using a retrospective transition method to each period presented. The adoption of this amended guidance will not have an impact on our financial position or results of operations. We do not expect this amended guidance to have a significant impact on our Consolidated Statement of Cash Flows.

In March 2017, the FASB issued amended guidance to shorten the amortization period of premiums on certain purchased callable fixed income securities to the earliest call date. The amended guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For private companies and emerging growth companies, this amended guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply the amendments on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We are evaluating the requirements of this guidance and the potential impact to our financial position, results of operations, and cash flows.

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6. Investments

The amortized cost and estimated fair value of investment securities as of June 30, 2018 and December 31, 2017, were as follows:

	June 30, 2018			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed income securities:				
U.S. Government and agencies	$ 15,383	$ 115	$ (211)	$ 15,287
Obligations of states and political subdivisions	57,231	452	(721)	56,962
Corporate securities	93,444	306	(1,600)	92,150
Residential mortgage-backed securities	41,651	34	(844)	40,841
Commercial mortgage-backed securities	14,906	—	(324)	14,582
Asset-backed securities	21,962	1	(198)	21,765
Total fixed income securities	244,577	908	(3,898)	241,587
Equity securities:				
Basic materials	1,159	118	(14)	1,263
Communications	3,097	1,828	(144)	4,781
Consumer, cyclical	5,234	3,977	(62)	9,149
Consumer, non-cyclical	6,802	4,978	(425)	11,355
Energy	2,047	326	(319)	2,054
Financial	3,038	296	(120)	3,214
Industrial	5,000	3,528	(118)	8,410
Technology	4,112	5,593	(126)	9,579
Total equity securities	30,489	20,644	(1,328)	49,805
Total investments	$ 275,066	$ 21,552	$ (5,226)	$ 291,392

	December 31, 2017			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed income securities:				
U.S. Government and agencies	$ 9,531	$ 175	$ (57)	$ 9,649
Obligations of states and political subdivisions	81,741	1,171	(317)	82,595
Corporate securities	88,474	1,197	(220)	89,451
Residential mortgage-backed securities	28,557	124	(157)	28,524
Commercial mortgage-backed securities	11,228	61	(119)	11,170
Asset-backed securities	15,447	10	(88)	15,369
Total fixed income securities	234,978	2,738	(958)	236,758
Equity securities:				
Basic materials	768	124	—	892
Communications	3,027	1,449	(154)	4,322
Consumer, cyclical	5,303	4,156	(120)	9,339
Consumer, non-cyclical	7,090	3,940	(125)	10,905
Energy	2,003	272	(44)	2,231
Financial	2,007	410	—	2,417
Industrial	5,038	4,167	—	9,205
Technology	3,792	4,668	(210)	8,250
Total equity securities	29,028	19,186	(653)	47,561
Total investments	$ 264,006	$ 21,924	$ (1,611)	$ 284,319

(dollar amounts in thousands, except per share amounts)

The amortized cost and estimated fair value of fixed income securities by contractual maturity are shown below. Actual maturities could differ from contractual maturities because issuers of the securities may have the right to call or prepay certain obligations, which may or may not include call or prepayment penalties.

	June 30, 2018	
	Amortized Cost	Fair Value
Due to mature:		
One year or less	$ 7,259	$ 7,254
After one year through five years	94,142	93,650
After five years through ten years	58,294	57,333
After ten years	6,363	6,162
Mortgage / asset-backed securities	78,519	77,188
Total fixed income securities	$ 244,577	$ 241,587

	December 31, 2017	
	Amortized Cost	Fair Value
Due to mature:		
One year or less	$ 12,761	$ 12,766
After one year through five years	86,830	87,642
After five years through ten years	69,586	70,680
After ten years	10,569	10,607
Mortgage / asset-backed securities	55,232	55,063
Total fixed income securities	$ 234,978	$ 236,758

Fixed income securities with a fair value of $3,392 at June 30, 2018 and $3,493 at December 31, 2017, were deposited with various state regulatory agencies as required by law. The Company has not pledged any assets to secure any obligations.

(dollar amounts in thousands, except per share amounts)

The investment category and duration of the Company's gross unrealized losses on fixed income securities and equity securities were as follows:

	June 30, 2018					
	Less than 12 Months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed income securities:						
U.S. Government and agencies	$ 9,919	$ (208)	$ 748	$ (3)	$ 10,667	$ (211)
Obligations of states and political subdivisions	28,068	(548)	3,959	(173)	32,027	(721)
Corporate securities	67,967	(1,560)	1,122	(40)	69,089	(1,600)
Residential mortgage-backed securities	28,800	(558)	6,542	(286)	35,342	(844)
Commercial mortgage-backed securities	12,976	(233)	1,606	(91)	14,582	(324)
Asset-backed securities	15,453	(185)	1,224	(13)	16,677	(198)
Total fixed income securities	163,183	(3,292)	15,201	(606)	178,384	(3,898)
Equity securities:						
Basic materials	415	(14)	—	—	415	(14)
Communications	430	(79)	630	(65)	1,060	(144)
Consumer, cyclical	376	(62)	—	—	376	(62)
Consumer, non-cyclical	3,036	(425)	—	—	3,036	(425)
Energy	132	(319)	—	—	132	(319)
Financial	1,626	(120)	—	—	1,626	(120)
Industrial	1,555	(118)	—	—	1,555	(118)
Technology	432	(75)	192	(51)	624	(126)
Total equity securities	8,002	(1,212)	822	(116)	8,824	(1,328)
Total investments	$ 171,185	$ (4,504)	$ 16,023	$ (722)	$ 187,208	$ (5,226)

	December 31, 2017					
	Less than 12 Months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed income securities:						
U.S. Government and agencies	$ 6,442	$ (54)	$ 497	$ (3)	$ 6,939	$ (57)
Obligations of states and political subdivisions	28,219	(251)	3,593	(66)	31,812	(317)
Corporate securities	39,025	(201)	1,195	(19)	40,220	(220)
Residential mortgage-backed securities	7,573	(40)	7,248	(117)	14,821	(157)
Commercial mortgage-backed securities	4,652	(64)	1,643	(55)	6,295	(119)
Asset-backed securities	13,386	(80)	781	(8)	14,167	(88)
Total fixed income securities	99,297	(690)	14,957	(268)	114,254	(958)
Equity securities:						
Communications	840	(48)	107	(106)	947	(154)
Consumer, cyclical	898	(116)	214	(4)	1,112	(120)
Consumer, non-cyclical	1,894	(125)	—	—	1,894	(125)
Energy	243	(44)	—	—	243	(44)
Technology	634	(120)	152	(90)	786	(210)
Total equity securities	4,509	(453)	473	(200)	4,982	(653)
Total investments	$ 103,806	$ (1,143)	$ 15,430	$ (468)	$ 119,236	$ (1,611)

(dollar amounts in thousands, except per share amounts)

Investments with unrealized losses are categorized with a duration of greater than 12 months when all positions of a security have continually been in a loss position for at least 12 months.

We frequently review our investment portfolio for declines in fair value. Our process for identifying declines in the fair value of investments that are other than temporary involves consideration of several factors. These factors include (i) the time period in which there has been a significant decline in value, (ii) an analysis of the liquidity, business prospects, and overall financial condition of the issuer, (iii) the significance of the decline, and (iv) our intent and ability to hold the investment for a sufficient period of time for the value to recover. When our analysis of the above factors results in the conclusion that declines in fair values are other than temporary, the cost of the securities is written down to fair value and the previously unrealized loss is therefore reflected as a realized capital loss on investment.

The Company recorded no impairments during the three or six months ended June 30, 2018. The Company recorded impairments of $206 in the three and six months ended June 30, 2017.

As of June 30, 2018, we held 296 fixed income securities with unrealized losses. As of December 31, 2017, we held 196 fixed income securities with unrealized losses. In conjunction with our outside investment advisors, we analyzed the credit ratings of the securities as well as the historical monthly amortized cost to fair value ratio of securities in an unrealized loss position. This analysis yielded no fixed income securities which had fair values less than 80% of amortized cost for the preceding 12-month period.

Net investment income consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Fixed income securities	$ 1,674	$ 1,580	$ 3,273	$ 2,911
Equity securities	243	93	472	163
Real estate	91	87	182	173
Cash and cash equivalents	43	34	62	44
Total gross investment income	2,051	1,794	3,989	3,291
Investment expenses	528	491	1,097	989
Net investment income	$ 1,523	$ 1,303	$ 2,892	$ 2,302

Net realized capital gain on investments consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Gross realized gains	$ 626	$ 552	$ 1,195	$ 1,180
Gross realized losses, excluding other-than-temporary impairment losses	(376)	(7)	(476)	(19)
Other-than-temporary impairment losses	—	(206)	—	(206)
Net realized capital gain on investments	$ 250	$ 339	$ 719	$ 955

7. Fair Value Measurements

We maximize the use of observable inputs in our valuation techniques and apply unobservable inputs only to the extent that observable inputs are unavailable. The largest class of assets and liabilities carried at fair value by the Company at June 30, 2018 and December 31, 2017 were fixed income securities.

Prices provided by independent pricing services and independent broker quotes can vary widely, even for the same security.

Our available-for-sale investments are comprised of a variety of different securities, which are classified into levels based on the valuation technique and inputs used in their valuation. The valuation of cash equivalents and equity securities are generally based on Level I inputs, which use the market approach valuation technique. The valuation of fixed income securities generally incorporates significant Level II inputs using the market and income approach techniques. We may assign a lower level to inputs typically considered to be Level II based on our assessment of liquidity and relative level of uncertainty surrounding inputs. There were no assets or liabilities classified as Level III at June 30, 2018 or December 31, 2017.

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The following tables set forth our assets which are measured on a recurring basis by the level within the fair value hierarchy in which fair value measurements fall:

	June 30, 2018			
	Total	**Level I**	**Level II**	**Level III**
Fixed income securities:				
U.S. Government and agencies	$ 15,287	$ —	$ 15,287	$ —
Obligations of states and political subdivisions	56,962	—	56,962	—
Corporate securities	92,150	—	92,150	—
Residential mortgage-backed securities	40,841	—	40,841	—
Commercial mortgage-backed securities	14,582	—	14,582	—
Asset-backed securities	21,765	—	21,765	—
Total fixed income securities	241,587	—	241,587	—
Equity securities:				
Basic materials	1,263	1,263	—	—
Communications	4,781	4,781	—	—
Consumer, cyclical	9,149	9,149	—	—
Consumer, non-cyclical	11,355	11,355	—	—
Energy	2,054	2,054	—	—
Financial	3,214	3,214	—	—
Industrial	8,410	8,410	—	—
Technology	9,579	9,579	—	—
Total equity securities	49,805	49,805	—	—
Cash and cash equivalents	30,955	30,955	—	—
Total assets at fair value	$ 322,347	$ 80,760	$ 241,587	$ —

	December 31, 2017			
	Total	**Level I**	**Level II**	**Level III**
Fixed income securities:				
U.S. Government and agencies	$ 9,649	$ —	$ 9,649	$ —
Obligations of states and political subdivisions	82,595	—	82,595	—
Corporate securities	89,451	—	89,451	—
Residential mortgage-backed securities	28,524	—	28,524	—
Commercial mortgage-backed securities	11,170	—	11,170	—
Asset-backed securities	15,369	—	15,369	—
Total fixed income securities	236,758	—	236,758	—
Equity securities:				
Basic materials	892	892	—	—
Communications	4,322	4,322	—	—
Consumer, cyclical	9,339	9,339	—	—
Consumer, non-cyclical	10,905	10,905	—	—
Energy	2,231	2,231	—	—
Financial	2,417	2,417	—	—
Industrial	9,205	9,205	—	—
Technology	8,250	8,250	—	—
Total equity securities	47,561	47,561	—	—
Cash and cash equivalents	27,594	27,594	—	—
Total assets at fair value	$ 311,913	$ 75,155	$ 236,758	$ —

There were no liabilities measured at fair value on a recurring basis at June 30, 2018 or December 31, 2017.

NI Holdings, Inc.
Notes to Unaudited Consolidated Financial Statements
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8. Reinsurance

The Company will assume and cede certain premiums and losses to and from various companies and associations under various reinsurance agreements. The Company seeks to limit the maximum net loss that can arise from large risks or risks in concentrated areas of exposure through use of these agreements, either on an automatic basis under general reinsurance contracts known as treaties or by negotiation on substantial individual risks.

Reinsurance contracts do not relieve the Company from its obligation to policyholders. Additionally, failure of reinsurers to honor their obligations could result in significant losses to us. There can be no assurance that reinsurance will continue to be available to us at the same extent, and at the same cost, as it has in the past. The Company may choose in the future to reevaluate the use of reinsurance to increase or decrease the amounts of risk ceded to reinsurers.

As a group at June 30, 2018, the Company retained the first $10,000 of weather-related losses from catastrophic events and had reinsurance under various reinsurance agreements up to $74,600 in excess of its $10,000 retained risk. These reinsurance risk limits are unchanged from 2017.

The Company actively monitors and evaluates the financial condition of the reinsurers and develops estimates of the uncollectible amounts due from reinsurers. Such estimates are made based on periodic evaluation of balances due from reinsurers, judgments regarding reinsurers' solvency, known disputes, reporting characteristics of the underlying reinsured business, historical experience, current economic conditions, and the state of reinsurer relations in general. Collection risk is mitigated from reinsurers by entering into reinsurance arrangements only with reinsurers that have strong credit ratings and statutory surplus above certain levels. The Company's largest reinsurance recoverables on paid and unpaid losses were due from reinsurance companies with A.M. Best ratings of "A" or higher.

A reconciliation of direct to net premiums on both a written and an earned basis is as follows:

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned
Direct premium	$ 88,580	$ 53,987	$ 127,854	$ 91,179
Assumed premium	3,249	3,249	4,532	4,488
Ceded premium	(6,559)	(6,559)	(8,878)	(8,878)
Net premiums	$ 85,270	$ 50,677	$ 123,508	$ 86,789
Percentage of assumed earned premium to net earned premium		6.4%		5.2%

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned
Direct premium	$ 83,671	$ 48,564	$ 120,051	$ 82,680
Assumed premium	3,396	3,368	4,591	4,539
Ceded premium	(8,953)	(6,279)	(11,431)	(8,757)
Net premiums	$ 78,114	$ 45,653	$ 113,211	$ 78,462
Percentage of assumed earned premium to net earned premium		7.4%		5.8%

A reconciliation of direct to net losses and loss adjustment expenses is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Direct losses and loss adjustment expenses	$ 41,121	$ 36,093	$ 59,758	$ 55,735
Assumed losses and loss adjustment expenses	487	2,024	1,076	2,613
Ceded losses and loss adjustment expenses	(887)	(1,887)	(1,264)	(4,397)
Net losses and loss adjustment expenses	$ 40,721	$ 36,230	$ 59,570	$ 53,951

If 100% of our ceded reinsurance was cancelled as of June 30, 2018 or December 31, 2017, no ceded commissions would need to be returned to the reinsurers. Reinsurance contracts are typically effective from January 1 through December 31 each year.

(dollar amounts in thousands, except per share amounts)

9. Deferred Policy Acquisition Costs

Activity with regards to our deferred policy acquisition costs was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Balance, beginning of period	$ 8,980	$ 9,681	$ 8,859	$ 8,942
Deferral of policy acquisition costs	11,828	10,746	18,988	16,494
Amortization of deferred policy acquisition costs	(8,618)	(6,301)	(15,657)	(11,310)
Balance, end of period	$ 12,190	$ 14,126	$ 12,190	$ 14,126

10. Unpaid Losses and Loss Adjustment Expenses

Activity in the liability for unpaid losses and loss adjustment expenses is summarized as follows:

	Six Months Ended June 30,	
	2018	2017
Balance at beginning of period:		
Liability for unpaid losses and loss adjustment expense	$ 45,890	$ 59,632
Reinsurance recoverables on losses	4,128	7,192
Net balance at beginning of period	41,762	52,440
Incurred related to:		
Current year	60,152	58,917
Prior years	(582)	(4,966)
Total incurred	59,570	53,951
Paid related to:		
Current year	25,220	23,782
Prior years	16,337	20,382
Total paid	41,557	44,164
Balance at end of period:		
Liability for unpaid losses and loss adjustment expense	63,376	72,619
Reinsurance recoverables on losses	3,601	10,392
Net balance at end of period	$ 59,775	$ 62,227

The prior years' provision for unpaid losses and loss adjustment expenses decreased by $582 during the six months ended June 30, 2018, compared to a decrease of $4,966 during the six months ended June 30, 2017. Increases and decreases are generally the result of ongoing analysis of loss development trends. As additional information becomes known regarding individual claims, original estimates are increased or decreased accordingly.

NI Holdings, Inc.
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11. Property and Equipment

Property and equipment consisted of the following:

	June 30, 2018	December 31, 2017	Estimated Useful Life
Cost:			
Real estate	$ 10,857	$ 10,633	10 - 31 years
Electronic data processing equipment	1,423	1,288	5-7 years
Furniture and fixtures	3,536	3,511	5-7 years
Automobiles	1,589	1,595	2-3 years
Gross cost	17,405	17,027	
Accumulated depreciation	(11,386)	(11,150)	
Total property and equipment, net	$ 6,019	$ 5,877	

Depreciation expense was $104 and $125 for the three months ended June 30, 2018 and 2017, respectively, and $243 and $249 for the six months ended June 30, 2018 and 2017, respectively.

12. Related Party Transactions

We were organized by the NDFB to provide insurance protection for its members. We have a royalty agreement with the NDFB that recognizes the use of their trademark and provides royalties to the NDFB based on the premiums written on Nodak Insurance's insurance policies. Royalties paid to the NDFB were $375 and $357 during the three months ended June 30, 2018 and 2017, respectively. Royalties paid to the NDFB were $682 and $651 during the six months ended June 30, 2018 and 2017, respectively. Royalty amounts payable of $166 and $99 were accrued as a liability to the NDFB at June 30, 2018 and December 31, 2017, respectively.

State insurance laws require our insurance subsidiaries to maintain certain minimum capital and surplus amounts on a statutory basis. Our insurance subsidiaries are subject to regulations that restrict the payment of dividends from statutory surplus and may require prior approval from their domiciliary insurance regulatory authorities. Our insurance subsidiaries are also subject to risk-based capital ("RBC") requirements that may further affect their ability to pay dividends. Our insurance subsidiaries statutory capital and surplus at December 31, 2017 exceeded the amount of statutory capital and surplus necessary to satisfy regulatory requirements, including the RBC requirements, by a significant margin.

The amount available for payment of dividends from Nodak Insurance to NI Holdings after the conversion without the prior approval of the North Dakota Insurance Department is $15,654 based upon the policyholders' surplus of Nodak Insurance at December 31, 2017. Prior to its payment of any extraordinary dividend, Nodak Insurance will be required to provide notice of the dividend to the North Dakota Insurance Department. This notice must be provided to the North Dakota Insurance Department 30 days prior to the payment of an extraordinary dividend and 10 days prior to the payment of an ordinary dividend. The North Dakota Insurance Department has the power to limit or prohibit dividend payments if Nodak Insurance is in violation of any law or regulation. These restrictions or any subsequently imposed restrictions may affect our future liquidity. No dividends were declared or paid by Nodak Insurance during the six months ended June 30, 2018 or the year ended December 31, 2017.

(dollar amounts in thousands, except per share amounts)

The following table illustrates the impact of including Battle Creek in our Consolidated Balance Sheets prior to intercompany eliminations:

	June 30, 2018	December 31, 2017
Assets:		
Cash and cash equivalents (overdraft)	$ 606	$ (726)
Investments	4,395	4,364
Premiums and agents' balances receivable	4,522	4,055
Reinsurance recoverables on losses (1)	24,279	20,932
Accrued investment income	32	29
Deferred income tax asset, net	395	389
Property and equipment	363	370
Other assets	41	54
Total assets	$ 34,633	$ 29,467
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 9,575	$ 7,995
Unearned premiums	14,731	12,937
Notes payable (1)	3,000	3,000
Reinsurance payable (1)	3,263	965
Accrued expenses and other liabilities	910	1,392
Total liabilities	31,479	26,289
Equity:		
Non-controlling interest	3,154	3,178
Total equity	3,154	3,178
Total liabilities and equity	$ 34,633	$ 29,467

(1) Amount eliminated in consolidation.

Total statutory revenues and expenses of Battle Creek after intercompany eliminations, which is limited to net investment income and certain miscellaneous other income and expenses, were $34 and $0, respectively, during the three months ended June 30, 2018, and $11 and $0, respectively, during the three months ended June 30, 2017.

Total statutory revenues and expenses of Battle Creek after intercompany eliminations, which is limited to net investment income and certain miscellaneous other income and expenses, were $76 and $0, respectively, during the six months ended June 30, 2018, and $69 and $0, respectively, during the six months ended June 30, 2017.

13. Benefit Plans

The Company sponsors a profit-sharing plan that covers all eligible employees. Plan costs are funded annually as they are earned. The Company's contribution expense for the profit-sharing plan totaled $138 and $157 during the three months ended June 30, 2018 and 2017, respectively, and totaled $592 and $526 during the six months ended June 30, 2018 and 2017, respectively.

The Company also sponsors a 401(k) plan with an automatic contribution to all eligible employees and a matching contribution for eligible employees of 50% up to 3% of eligible compensation. The Company's contributions expense to the 401(k) plan totaled $99 and $115 during the three months ended June 30, 2018 and 2017, respectively, and totaled $239 and $230 during the six months ended June 30, 2018 and 2017, respectively. All fees associated with both plans are deducted from the eligible employee accounts.

Deferred Compensation Plan

Effective April 28, 2016, the Board of Directors authorized a non-qualified deferred compensation plan covering key executives of the Company as designated by the Board of Directors. The Company's policy is to fund the plan in a given calendar year by amounts that exceed the maximum contribution allowed by the Employee Retirement Income Security Act ("ERISA"), beginning in 2017. Funds deposited were $14 and $12 during the three months ended June 30, 2018 and 2017, respectively. Funds deposited were $158 and $117 during the six months ended June 30, 2018 and 2017, respectively.

Employee Stock Ownership Plan

The Company has established an Employee Stock Ownership Plan (the "ESOP"). The ESOP is intended to be an employee stock ownership plan within the meaning of Internal Revenue Code Section 4975(e)(7) and will invest primarily in common stock of the Company.

In connection with our initial public offering in March 2017, Nodak Insurance loaned $2,400 to the ESOP's related trust (the "ESOP Trust"). The ESOP loan will be for a period of ten years and bears interest at the long-term Applicable Federal Rate effective on the closing date of the offering (2.79% annually). The ESOP Trust used the proceeds of the loan to purchase shares in our initial public offering, which results in the ESOP Trust owning approximately 1.0% of the Company's authorized shares. The ESOP has purchased the shares for investment and not for resale.

The shares purchased by the ESOP Trust in the offering are held in a suspense account as collateral for the ESOP loan. The shares held in the ESOP's suspense account are not considered outstanding for earnings per share purposes. Nodak Insurance will make semi-annual cash contributions to the ESOP in amounts no smaller than the amounts required for the ESOP Trust to make its loan payments to Nodak Insurance. While the ESOP makes two loan payments per year, a pre-determined portion of the shares will be released from the suspense account and allocated to participant accounts at the end of the calendar year. This release and allocation will occur on an annual basis over the ten-year term of the ESOP loan. Nodak Insurance will have a lien on the shares of common stock of the Company held by the ESOP to secure repayment of the loan from the ESOP to Nodak Insurance. If the ESOP is terminated as a result of a change in control of the Company, the ESOP may be required to pay the costs of terminating the plan.

It is anticipated that the only assets held by the ESOP will be shares of the Company's common stock. Participants in the ESOP cannot direct the investment of any assets allocated to their accounts. The initial ESOP participants are employees of Nodak Insurance. The employees of Primero will not participate in the ESOP.

Each employee of Nodak Insurance will automatically become a participant in the ESOP if such employee is at least 21 years old, has completed a minimum of one thousand hours of service with Nodak Insurance, and has completed an Eligibility Computation Period. Employees are not permitted to make any contributions to the ESOP. Participants in the ESOP will receive annual reports from the Company showing the number of shares of common stock of the Company allocated to the participant's account and the market value of those shares. The shares are allocated to participants based on compensation as provided for in the ESOP.

In connection with the initial public offering, the Company created a contra-equity account on the Company's Consolidated Balance Sheet equal to the ESOP's basis in the shares. The basis of those shares was set at $10.00 per share as part of the initial public offering. As shares are released from the ESOP suspense account, the contra-equity account will be credited, which shall reduce the impact of the contra-equity account on the Company's Consolidated Balance Sheet. The Company shall record a compensation expense related to the shares released, which compensation expense is equal to the number of shares released from the suspense account multiplied by the average market value of the Company's stock during the period.

The Company recognized compensation expense of $100 and $203 during the three and six months ended June 30, 2018, respectively.

At December 31, 2017, 24,315 ESOP shares were released and allocated to participants, with a remainder of 215,685 ESOP shares in suspense at both December 31, 2017 and June 30, 2018. Using the Company's quarter-end market price of $16.95 per share, the fair value of the unearned ESOP shares was $3,656 at June 30, 2018.

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14. Line of Credit

Nodak Insurance has a $3,000 line of credit with Wells Fargo Bank, N.A., of which there were no outstanding amounts as of June 30, 2018 or December 31, 2017. This line of credit is scheduled to expire on November 30, 2018.

15. Income Taxes

At June 30, 2018 and December 31, 2017, we had no unrecognized tax benefits, no accrued interest and penalties, and no significant uncertain tax positions. No interest and penalties were recognized during the three or six months ended June 30, 2018 or 2017.

At June 30, 2018 and December 31, 2017, the Company, other than Battle Creek, had no income tax related carryovers for net operating losses, alternative minimum tax credits, or capital losses. Battle Creek, which files its income tax returns on a stand-alone basis, had $4,951 of net operating loss carryover at December 31, 2017. The net operating loss carryforward expires beginning in 2021 through 2030.

16. Operating Leases

We leased facilities, equipment, and software under non-cancellable operating leases expiring at various times through November 2017. Expenses related to these leases were $0 and $10 during the three months ended June 30, 2018 and 2017, respectively, and $0 and $20 during the six months ended June 30, 2018 and 2017, respectively.

As of June 30, 2018, we have no minimum future commitments under non-cancellable leases.

We also sub-lease portions of our home office building under non-cancellable operating leases.

17. Contingencies

We have been named as a defendant in various lawsuits relating to our insurance operations. Contingent liabilities arising from litigation, income taxes and other matters are not considered to be material to our financial position.

The Company does not have any unrecorded or potential contingent liabilities or material commitments requiring the use of assets as of June 30, 2018 or December 31, 2017.

18. Common Stock

Changes in the number of common stock shares outstanding are as follows:

	Six Months Ended June 30,	
	2018	**2017**
Shares outstanding, beginning of period	22,337,644	—
Initial public offering	—	23,000,000
Shares repurchased related to employee stock ownership plan	—	(240,000)
Treasury shares repurchased through stock repurchase authorization	—	(446,671)
Issuance of treasury shares for vesting of restricted stock units	22,200	—
Shares outstanding, end of period	22,359,844	22,313,329

Note: Shares were not available prior to the Company’s initial public offering in March 2017.

On May 23, 2017, our Board of Directors approved an authorization for the repurchase of up to $8 million of the Company’s outstanding common stock. We completed the repurchase of 446,671 shares of our common stock for $8,037 during the three months ended June 30, 2017, and reflected the cost of this treasury stock as a reduction of Equity within our Consolidated Balance Sheet as of December 31, 2017.

(dollar amounts in thousands, except per share amounts)

On February 28, 2018, our Board of Directors approved an authorization for the repurchase of up to approximately $10 million of the Company’s outstanding common stock. No shares of our common stock have been repurchased under this authorization.

19. Stock Based Compensation

At its 2017 Annual Shareholders’ Meeting, the NI Holdings, Inc. 2017 Stock and Incentive Plan (the “Plan”) was approved by shareholders. The purpose of the Plan is to promote the interests of the Company and its shareholders by aiding the Company in attracting and retaining employees, officers, consultants, advisors, and non-employee directors capable of assuring the future success of the Company, to offer such persons incentives to put forth maximum efforts for the success of the Company’s business, to compensate such persons through various stock and cash-based arrangements, and to provide them with opportunities for stock ownership in the Company, thereby aligning the interests of such persons with the Company’s shareholders.

The Plan provides for the grant of nonqualified stock options, incentive stock options, restricted stock units (“RSUs”), stock appreciation rights, dividend equivalents, and performance share units (“PSUs”) to employees, officers, consultants, advisors, non-employee directors, and independent contractors designated by the Compensation Committee of the Board of Directors (the “Compensation Committee”). Awards made under the Plan are based upon, among other things, a participant’s level of responsibility and performance within the Company.

The total aggregate number of shares of common stock that awards may be issued under all awards made under the Plan shall not exceed 500,000 shares of common stock, subject to adjustments as provided in the Plan. No eligible participant may be granted more than 100,000 shares from any stock options, stock appreciation rights, or performance awards denominated in shares, in the aggregate in any calendar year, subject to adjustment in accordance with the Plan. The aggregate amount payable pursuant to all performance awards denominated in cash to any eligible person in any calendar year is limited to $1,000 in value. Directors who are not also employees of the Company may not be granted awards denominated in shares that exceed $100 in any calendar year.

Restricted Stock Units

On December 1, 2017, the Compensation Committee awarded RSUs to non-employee directors and select executives. RSUs are promises to issue actual shares of common stock at the end of a vesting period. The RSUs granted to executives under the Plan were based on salary and generally vest 20% per year over a five-year period, while RSUs granted to non-employee directors vest in May 2018. Dividend equivalents on RSUs are accrued during the vesting period and paid in cash at the end of the vesting period, but are subject to forfeiture until the underlying shares become vested. Participants do not have voting rights with respect to RSUs. On March 1, 2018, the first tranche of executive RSUs vested.

On March 1, 2018, the Compensation Committee awarded additional RSUs to select executives with the same terms as the previous awards.

On May 22, 2018, the RSUs awarded to non-employee directors vested. Additional RSUs were awarded to non-employee directors to vest on the date of the next annual meeting of shareholders.

The Company recognizes stock-based compensation costs based on the grant date fair value over the vesting period of the awards. Estimated forfeitures are included in the determination of compensation costs. No forfeitures are currently estimated.

A summary of the Company’s outstanding RSUs for the six months ended June 30, 2018, is presented below:

	Shares	Weighted-Average Grant-Date Fair Value Per Share
Units outstanding at December 31, 2017	65,500	$ 17.31
Grants	40,000	16.25
Vested	(26,200)	17.31
Units outstanding at June 30, 2018	79,300	$ 16.88

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The following table shows the impact of RSU activity to the Company's financial results:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
RSU compensation expense	$ 208	$ —	$ 642	$ —
Income tax benefit	(44)	—	(135)	—
RSU compensation expense, net of income taxes	$ 164	$ —	$ 507	$ —

Note: Share-based compensation was not available prior to the Company's initial public offering in March 2017.

At June 30, 2018, there was $1,021 of unrecognized compensation cost related to outstanding RSUs. That cost is expected to be recognized over a weighted-average period of 3.55 years.

Performance Stock Units

On March 1, 2018, the Compensation Committee awarded PSUs to select executives. PSUs are promises to issue actual shares of common stock at the end of a vesting period, if certain performance conditions are met. The PSUs granted to employees under the Plan were based on salary and include a three-year book value cumulative growth target with threshold and stretch goals. They will vest on the third anniversary of the grant date, subject to the participant's continuous employment through the vesting date and the level of performance achieved. Dividend equivalents on PSUs are accrued and paid in cash at the end of the performance period in accordance with the level of performance achieved, but are subject to forfeiture until the underlying shares become vested. Participants do not have voting rights with respect to PSUs.

The Company recognizes stock-based compensation costs based on the grant date fair value over the performance period of the awards. Estimated forfeitures are included in the determination of compensation costs. No forfeitures are currently estimated. The current cost estimate assumes that the cumulative growth target will be achieved.

A summary of the Company's outstanding PSUs for the six months ended June 30, 2018, is presented below:

	Performance Share Units	Weighted-Average Grant-Date Fair Value Per Share
Units outstanding at December 31, 2017	—	$ —
Grants (at target)	48,600	16.25
Units outstanding at June 30, 2018	48,600	$ 16.25

The following table shows the impact of PSU activity to the Company's financial results:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
PSU compensation expense	$ 71	$ —	$ 93	$ —
Income tax benefit	(15)	—	(20)	—
PSU compensation expense, net of income taxes	$ 56	$ —	$ 73	$ —

Note: Share-based compensation was not available prior to the Company's initial public offering in March 2017.

The PSU grants above represent initial target awards and do not reflect potential increases or decreases resulting from financial performance objectives to be determined at the end of the performance period. The actual number of shares to be issued at the end of the performance period will range from 0% to 150% of the initial target awards.

At June 30, 2018, there was $697 of unrecognized compensation cost related to outstanding PSUs. That cost is expected to be recognized over a weighted-average period of 2.50 years.

(dollar amounts in thousands, except per share amounts)

20. Earnings Per Share

As described in Note 1, the conversion of the mutual company to a stock company resulted in the issuance of NI Holdings common shares on March 13, 2017. Earnings per share are computed by dividing net income available to common shareholders for the period by the weighted average number of common shares outstanding for the same period. The weighted average number of common shares outstanding was 22,377,421 and 22,369,632, respectively, during the three and six months ended June 30, 2018, and 22,663,280 and 22,711,373, respectively, during the three and six months ended June 30, 2017. For the period prior to the date of the conversion, we assumed that the net common shares issued in the initial public offering of 22,760,000 shares were outstanding since January 1, 2017.

Unearned ESOP shares are not considered outstanding until they are released and allocated to plan participants. Unearned RSU and PSU shares are not considered outstanding until they are earned by award participants.

The following table presents a reconciliation of the numerators and denominators we used in the basic and diluted per share computations for our common stock:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Basic earnings per common share:				
Numerator:				
Net income attributable to NI Holdings, Inc.	$ 226	$ 129	$ 6,348	$ 4,818
Denominator:				
Weighted average shares outstanding	22,377,421	22,663,280	22,369,632	22,711,373
Basic earnings per common share	$ 0.01	$ 0.01	$ 0.28	$ 0.21
Diluted earnings per common share:				
Numerator:				
Net income attributable to NI Holdings, Inc.	$ 226	$ 129	$ 6,348	$ 4,818
Denominator:				
Number of shares used in basic computation	22,377,421	22,663,280	22,369,632	22,711,373
Weighted average effect of dilutive securities				
Add: Restricted stock units and performance share units	19,537	—	15,939	—
Number of shares used in per share computations	22,396,958	22,663,280	22,385,571	22,711,373
Diluted earnings per common share	$ 0.01	$ 0.01	$ 0.28	$ 0.21

(dollar amounts in thousands, except per share amounts)

21. Segment Information

We have four primary reportable operating segments, which consist of private passenger auto insurance, non-standard auto insurance, home and farm insurance, and crop insurance. A fifth segment captures all other insurance coverages we sell, including commercial coverages and our assumed reinsurance lines of business. We operate only in the United States, and no single customer or agent provides 10 percent or more of our revenues. The following tables provide available information of these segments for the three and six months ended June 30, 2018 and 2017. Prior years have been restated to reflect the change in segments. For presentation in these tables, "LAE" refers to loss adjustment expenses.

	Three Months Ended June 30, 2018					
	Private Passenger Auto	**Non-Standard Auto**	**Home and Farm**	**Crop**	**All Other**	**Total**
Direct premiums earned	$ 16,139	$ 3,476	$ 17,243	$ 15,084	$ 2,045	$ 53,987
Assumed premiums earned	4	—	(4)	2,283	966	3,249
Ceded premiums earned	(833)	—	(1,618)	(3,926)	(182)	(6,559)
Net premiums earned	15,310	3,476	15,621	13,441	2,829	50,677
Direct losses and LAE	11,177	2,973	16,542	9,724	705	41,121
Assumed losses and LAE	47	—	(62)	164	338	487
Ceded losses and LAE	(49)	—	47	(881)	(4)	(887)
Net losses and LAE	11,175	2,973	16,527	9,007	1,039	40,721
Gross margin	4,135	503	(906)	4,434	1,790	9,956
Underwriting and general expenses	4,703	890	5,138	163	908	11,802
Underwriting gain (loss)	(568)	(387)	(6,044)	4,271	882	(1,846)
Fee and other income		330				470
		(57)				
Net investment income						1,523
Net realized capital gain on investments						250
Income before income taxes						397
Income taxes						141
Net income						256
Net income attributable to non-controlling interest						30
Net income attributable to NI Holdings, Inc.						$ 226
Loss and LAE ratio	73.0%	85.5%	105.8%	67.0%	36.7%	80.4%
Expense ratio	30.7%	25.6%	32.9%	1.2%	32.1%	23.3%
Combined ratio	103.7%	111.1%	138.7%	68.2%	68.8%	103.6%
Balances at June 30, 2018:						
Premiums receivable	$ 17,365	$ 1,126	$ 9,819	$ 44,397	$ 1,468	$ 74,175
Deferred policy acquisition costs	3,754	322	5,250	2,267	597	12,190
Reinsurance recoverables	432	—	589	899	1,681	3,601
Receivable from Federal Crop Insurance Corporation	—	—	—	11,130	—	11,130
Unpaid losses and LAE	18,592	5,942	18,838	10,020	9,984	63,376
Unearned premiums	27,248	1,860	37,473	28,310	5,063	99,954

(dollar amounts in thousands, except per share amounts)

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	Three Months Ended June 30, 2017					
	Private Passenger Auto	Non-Standard Auto	Home and Farm	Crop	All Other	Total
Direct premiums earned	$ 14,278	$ 2,590	$ 15,649	$ 14,138	$ 1,909	$ 48,564
Assumed premiums earned	4	—	1	2,435	928	3,368
Ceded premiums earned	(762)	—	(1,579)	(3,759)	(179)	(6,279)
Net premiums earned	13,520	2,590	14,071	12,814	2,658	45,653
Direct losses and LAE	7,432	2,347	14,224	11,573	517	36,093
Assumed losses and LAE	39	—	—	1,403	582	2,024
Ceded losses and LAE	262	—	347	(2,062)	(434)	(1,887)
Net losses and LAE	7,733	2,347	14,571	10,914	665	36,230
Gross margin	5,787	243	(500)	1,900	1,993	9,423
Underwriting and general expenses	5,921	807	6,264	(2,244)	677	11,425
Underwriting gain (loss)	(134)	(564)	(6,764)	4,144	1,316	(2,002)
Fee and other income		262				321
		(302)				
Net investment income						1,303
Net realized capital gain on investments						339
Loss before income taxes						(39)
Income taxes (benefit)						(156)
Net income						117
Net loss attributable to non-controlling interest						(12)
Net income attributable to NI Holdings, Inc.						$ 129
Loss and LAE ratio	57.2%	90.6%	103.6%	85.2%	25.0%	79.4%
Expense ratio	43.8%	31.2%	44.5%	-17.5%	25.5%	25.0%
Combined ratio	101.0%	121.8%	148.1%	67.7%	50.5%	104.4%
Balances at June 30, 2017:						
Premiums receivable	$ 15,600	$ 1,003	$ 8,328	$ 44,736	$ 1,215	$ 70,882
Deferred policy acquisition costs	2,577	277	5,238	5,586	448	14,126
Reinsurance recoverables	1,435	—	2,625	3,716	2,616	10,392
Receivable from Federal Crop Insurance Corporation	—	—	—	12,496	—	12,496
Unpaid losses and LAE	24,391	6,276	17,162	15,862	8,928	72,619
Unearned premiums	25,247	1,579	33,894	26,718	4,756	92,194

NI Holdings, Inc.
Notes to Unaudited Consolidated Financial Statements
(dollar amounts in thousands, except per share amounts)

	Six Months Ended June 30, 2018					
	Private Passenger Auto	Non-Standard Auto	Home and Farm	Crop	All Other	Total
Direct premiums earned	$ 31,718	$ 6,467	$ 33,862	$ 15,084	$ 4,048	$ 91,179
Assumed premiums earned	8	—	(8)	2,283	2,205	4,488
Ceded premiums earned	(1,591)	—	(3,115)	(3,825)	(347)	(8,878)
Net premiums earned	30,135	6,467	30,739	13,542	5,906	86,789
Direct losses and LAE	21,364	4,937	21,958	10,063	1,436	59,758
Assumed losses and LAE	47	—	(49)	164	914	1,076
Ceded losses and LAE	(114)	—	(60)	(905)	(185)	(1,264)
Net losses and LAE	21,297	4,937	21,849	9,322	2,165	59,570
Gross margin	8,838	1,530	8,890	4,220	3,741	27,219
Underwriting and general expenses	9,122	1,925	10,092	651	1,889	23,679
Underwriting gain (loss)	(284)	(395)	(1,202)	3,569	1,852	3,540
Fee and other income		651				847
		256				
Net investment income						2,892
Net realized capital gain on investments						719
Income before income taxes						7,998
Income taxes						1,590
Net income						6,408
Net income attributable to non-controlling interest						60
Net income attributable to NI Holdings, Inc.						$ 6,348
Loss and LAE ratio	70.7%	76.3%	71.1%	68.8%	36.7%	68.6%
Expense ratio	30.3%	29.8%	32.8%	4.8%	32.0%	27.3%
Combined ratio	100.9%	106.1%	103.9%	73.6%	68.6%	95.9%
Balances at June 30, 2018:						
Premiums receivable	$ 17,365	$ 1,126	$ 9,819	$ 44,397	$ 1,468	$ 74,175
Deferred policy acquisition costs	3,754	322	5,250	2,267	597	12,190
Reinsurance recoverables	432	—	589	899	1,681	3,601
Receivable from Federal Crop Insurance Corporation	—	—	—	11,130	—	11,130
Unpaid losses and LAE	18,592	5,942	18,838	10,020	9,984	63,376
Unearned premiums	27,248	1,860	37,473	28,310	5,063	99,954

NI Holdings, Inc.
Notes to Unaudited Consolidated Financial Statements
(dollar amounts in thousands, except per share amounts)

	Six Months Ended June 30, 2017					
	Private Passenger Auto	Non-Standard Auto	Home and Farm	Crop	All Other	Total
Direct premiums earned	$ 27,877	$ 5,121	$ 30,721	$ 15,164	$ 3,797	$ 82,680
Assumed premiums earned	8	—	2	2,437	2,092	4,539
Ceded premiums earned	(1,721)	—	(3,014)	(3,687)	(335)	(8,757)
Net premiums earned	26,164	5,121	27,709	13,914	5,554	78,462
Direct losses and LAE	17,461	4,719	19,509	12,106	1,940	55,735
Assumed losses and LAE	310	—	—	1,403	900	2,613
Ceded losses and LAE	(51)	—	(506)	(2,015)	(1,825)	(4,397)
Net losses and LAE	17,720	4,719	19,003	11,494	1,015	53,951
Gross margin	8,444	402	8,706	2,420	4,539	24,511
Underwriting and general expenses	10,128	1,492	9,777	(1,392)	1,439	21,444
Underwriting gain (loss)	(1,684)	(1,090)	(1,071)	3,812	3,100	3,067
Fee and other income		526				668
		(564)				
Net investment income						2,302
Net realized capital gain on investments						955
Income before income taxes						6,992
Income taxes						2,126
Net income						4,866
Net income attributable to non-controlling interest						48
Net income attributable to NI Holdings, Inc.						$ 4,818
Loss and LAE ratio	67.7%	92.1%	68.6%	82.6%	18.3%	68.8%
Expense ratio	38.7%	29.1%	35.3%	-10.0%	25.9%	27.3%
Combined ratio	106.4%	121.3%	103.9%	72.6%	44.2%	96.1%
Balances at June 30, 2017:						
Premiums receivable	$ 15,600	$ 1,003	$ 8,328	$ 44,736	$ 1,215	$ 70,882
Deferred policy acquisition costs	2,577	277	5,238	5,586	448	14,126
Reinsurance recoverables	1,435	—	2,625	3,716	2,616	10,392
Receivable from Federal Crop Insurance Corporation	—	—	—	12,496	—	12,496
Unpaid losses and LAE	24,391	6,276	17,162	15,862	8,928	72,619
Unearned premiums	25,247	1,579	33,894	26,718	4,756	92,194

For purposes of evaluating profitability of the non-standard auto segment, management combines the policy fees paid by the insured with the underwriting gain or loss as its primary measure. As a result, these fees are allocated to the non-standard auto segment (included in fee and other income) in the above tables. The remaining fee and other income amounts are not allocated to any segment.

We do not assign or allocate all Consolidated Statement of Operations or Consolidated Balance Sheet line items to our operating segments. Those line items include investment income, net realized capital gain on investments, other income excluding non-standard auto insurance fees, and income taxes for the Consolidated Statement of Operations. For the Consolidated Balance Sheet, those items include cash and investments, property and equipment, other assets, accrued expenses, federal income taxes recoverable or payable, and equity.

22. Subsequent Events

We have evaluated subsequent events through August 3, 2018, the date these consolidated financial statements were available for issuance.

Item 2. - Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to provide a more comprehensive review of the Company's operating results and financial condition than can be obtained from reading the Unaudited Consolidated Financial Statements alone. This discussion should be read in conjunction with the Unaudited Consolidated Financial Statements and the notes thereto included in "Part I. Item 1. Financial Statements." Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q constitutes forward-looking statements that involve risks and uncertainties. Please see "Forward-Looking Statements" and "Part II. Item 1A. Risk Factors" included elsewhere in this Quarterly Report. You should also review "Risk Factors" included in the Company's Annual Report on Form 10-K for a discussion of important factors that could cause actual results to differ materially from the results described, or implied by, the forward-looking statements contained herein.

All dollar amounts included in Item 2 herein are in thousands.

Overview

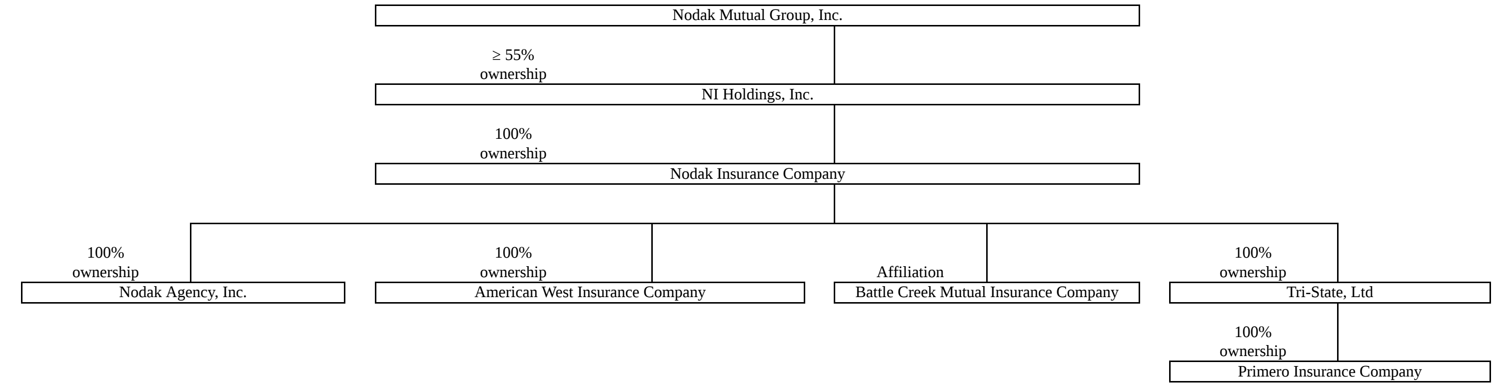
NI Holdings is a North Dakota business corporation that is the stock holding company of Nodak Insurance Company and became such in connection with the conversion of Nodak Mutual Insurance Company from a mutual to stock form of organization and the creation of a mutual holding company. The conversion was consummated on March 13, 2017. Immediately following the conversion, all of the outstanding shares of common stock of Nodak Insurance Company were issued to Nodak Mutual Group, which then contributed the shares to NI Holdings in exchange for 55% of the outstanding shares of common stock of NI Holdings. Nodak Insurance Company then became a wholly-owned stock subsidiary of NI Holdings. Prior to completion of the conversion, NI Holdings conducted no business and had no assets or liabilities. As a result of the conversion, NI Holdings became the holding company for Nodak Insurance Company and its existing subsidiaries.

Nodak Insurance offers property and casualty insurance, crop hail, and multi-peril crop insurance to members of the North Dakota Farm Bureau through captive agents in North Dakota. American West and Battle Creek offer similar insurance coverage through independent agents in South Dakota and Minnesota, and Nebraska, respectively. Primero offers limited nonstandard auto insurance coverage in Arizona, Nevada, North Dakota, and South Dakota. Nodak Insurance and Battle Creek are rated an "A" by A.M. Best, which is the third highest out of a possible 15 ratings. American West is rated an "A-", and Primero is unrated.

American West is a wholly-owned subsidiary of Nodak Insurance, and Primero is an indirect wholly-owned subsidiary of Nodak Insurance. Battle Creek is managed by Nodak Insurance, and Nodak Insurance reinsures 100% of the risk on all insurance policies issued by Battle Creek. NI Holdings' financial statements set forth herein include the consolidated financial results of NI Holdings and Nodak Insurance, including Nodak Insurance's subsidiaries American West and Primero, and its affiliate Battle Creek.

A chart of the corporate structure follows:

NI HOLDINGS, INC.
ORGANIZATIONAL CHART



The following tables provide selected amounts from the Company's Unaudited Consolidated Statements of Operations and Balance Sheets. Additional information can be found later in this section.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Direct premiums written	$ 88,580	$ 83,671	$ 127,854	$ 120,051
Net premiums earned	50,677	45,653	86,789	78,462
Net income before non-controlling interest	256	117	6,408	4,866

	June 30, 2018	December 31, 2017
Total assets	$ 441,398	$ 376,988
Equity	259,566	255,573

Marketplace Conditions and Trends

The property and casualty insurance industry is affected by recurring industry cycles known as "hard" and "soft" markets. A soft cycle is characterized by intense competition resulting in lower pricing in order to compete for business. A hard market, generally considered a beneficial industry trend, is characterized by reduced competition that results in higher pricing. We believe that the market is in a "firming" phase in response to higher frequency and severity of weather-related events in our markets as well as the rest of the world.

Unlike property and casualty insurance, the total crop insurance premiums written each year vary mainly based on prevailing commodity prices for the type of crops planted, because the aggregate number of acres planted does not vary much from year to year. Because the premiums that are charged for crop insurance are established by the Risk Management Agency ("RMA"), which is a division of the United States Department of Agriculture, and the policy forms and terms are also established by the RMA, insurers do not compete on price or policy terms and conditions. Moreover, because participation in other federal farm programs by a farmer is conditioned upon participation in the federal crop insurance program, most farmers obtain crop insurance on their plantings each year.

Principal Revenue Items

The Company derives its revenue primarily from net premiums earned, net investment income, and net realized capital gain (loss) on investments.

Gross and net premiums written

Gross premiums written is equal to direct premiums written and assumed premiums before the effect of ceded reinsurance. Gross premiums written are recognized upon sale of new insurance contracts or renewal of existing contracts. Net premiums written is equal to gross premiums written less premiums ceded or paid to reinsurers (ceded premiums written).

Premiums earned

Premiums earned is the earned portion of net premiums written. Gross premiums written include all premiums recorded by an insurance company during a specified policy period. Insurance premiums on property and casualty policies are recognized in proportion to the underlying risk insured and are earned ratably over the duration of the policies or, in the case of crop insurance, over the period of risk to the Company. At the end of each accounting period, the portion of the premiums that is not yet earned is included in unearned premiums and is realized as revenue in subsequent periods over the remaining term of the policy or period of risk. NI Holdings' property and casualty policies typically have a term of twelve months. For example, for a policy that is written on July 1, 2018, one-half of the premiums would be earned in 2018 and the other half would be earned in 2019.

Due to the nature of the crop planting and harvesting cycle and the deadlines for filing and processing claims under the federal crop insurance program, insurance premiums for crop insurance are generally recognized and earned during the period of risk, which usually begins in spring and ends with harvest in the fall. Under the federal crop insurance program, farmers must purchase crop insurance with respect to spring planted crops by March 15. By July 15, the farmer must report the number of acres he has planted in each crop. On September 1, the insurer bills the farmer for the insurance premium, which is due and payable by the farmer by October 1. If the farmer does not pay the premium by such date, the insurer must essentially provide a loan to the farmer in an amount equal to the premium at an annual interest rate of 15% because the insurer is required to pay the farmer's portion of the premium to the Federal Crop Insurance Corporation ("FCIC") by November 15, regardless of whether the farmer pays the premium to the insurer. Except for claims occurring in the spring (primarily for prevented planting and required replanting claims), claims are required to be filed with the FCIC by December 15. A different cycle exists for crops planted in the fall, such as winter wheat, but the vast majority of crop insurance written by NI Holdings covers crops planted in the spring.

Net investment income and net realized capital gain (loss) on investments

NI Holdings invests its surplus and the funds supporting its insurance liabilities (including unearned premiums and unpaid loss and loss adjustment expenses) in cash, cash equivalents, equity securities, and fixed income securities. Investment income includes interest and dividends earned on invested assets. Net realized capital gains and losses on investments are reported separately from net investment income. NI Holdings recognizes realized capital gains when investments are sold for an amount greater than their cost or amortized cost (in the case of fixed income securities) and recognizes realized capital losses when investments are written down as a result of an other-than-temporary impairment or sold for an amount less than their cost or amortized cost, as applicable. NI Holdings' portfolio of investments is managed by Conning, Inc. and Disciplined Growth Investors, who have discretion to buy and sell securities in accordance with the investment policy approved by our Board of Directors.

Principal Expense Items

NI Holdings' expenses consist primarily of losses and loss adjustment expenses ("LAE"), amortization of deferred policy acquisition costs, other underwriting and general expenses, and income taxes.

Losses and Loss Adjustment Expenses

Losses and LAE represent the largest expense item and include (1) claim payments made, (2) estimates for future claim payments and changes in those estimates from prior periods, and (3) costs associated with investigating, defending and adjusting claims, including legal fees.

Amortization of deferred policy acquisition costs and other underwriting and general expenses

Expenses incurred to underwrite risks are referred to as policy acquisition costs. Policy acquisition costs consist of commission expenses, premium taxes, and certain other underwriting expenses that vary with and are primarily related to the writing and acquisition of new and renewal business. These policy acquisition costs are deferred and amortized over the effective period of the related insurance policies. Other underwriting and general expenses consist of salaries, professional fees, office supplies, depreciation, and all other operating expenses not otherwise classified separately, as well as payments to bureaus and assessments of statistical agencies for policy service and administration items such as rating manuals, rating plans, and experience data.

Income taxes

NI Holdings uses the asset and liability method of accounting for deferred income taxes. Deferred income taxes arise from the recognition of temporary differences between financial statement carrying amounts and the income tax bases of its assets and liabilities. A valuation allowance is provided when it is more likely than not that some portion of the deferred income tax asset will not be realized. At both June 30, 2018 and December 31, 2017, the Company had recorded valuation allowances with respect to its deferred income tax assets of $628. The effect of a change in tax rates is recognized in the period of the enactment date.

Key Financial Measures

NI Holdings evaluates its insurance operations by monitoring certain key measures of growth and profitability. In addition to reviewing its financial performance based on results determined in accordance with accounting principles generally accepted in the United States of America (“GAAP”), NI Holdings utilizes certain non-GAAP financial measures that are used widely in the property and casualty insurance industry and which it believes are valuable in managing its business and for comparison to its peers. These non-GAAP measures are the expense ratio, loss and LAE ratio, combined ratio, written premiums, ratio of net written premiums to statutory surplus, underwriting gain, return on average equity, and risk based capital.

NI Holdings measures growth by monitoring changes in gross premiums written and net premiums written. The Company measures underwriting profitability by examining its loss and LAE ratio, expense ratio, and combined ratio. It also measures profitability by examining underwriting gain (loss), net income (loss), and return on average equity.

Loss and LAE ratio

The loss and LAE ratio is the ratio (expressed as a percentage) of losses and LAE incurred to premiums earned. NI Holdings measures the loss and LAE ratio on an accident year and calendar year loss basis to measure underwriting profitability. An accident year loss ratio measures losses and LAE for insured events occurring in a particular year, regardless of when they are reported, as a percentage of premiums earned during that year. A calendar year loss ratio measures losses and LAE for insured events occurring during a particular year and the change in loss reserves from prior policy years as a percentage of premiums earned during that year.

Expense ratio

The expense ratio is the ratio (expressed as a percentage) of amortization of deferred policy acquisition costs and other underwriting and general expenses (attributable to insurance operations) to premiums earned, and measures our operational efficiency in producing, underwriting, and administering the Company’s insurance business.

Combined ratio

The Company’s combined ratio is the ratio (expressed as a percentage) of the sum of losses and LAE incurred and expenses to premiums earned, and measures its overall underwriting profit. Generally, if the combined ratio is below 100%, NI Holdings is making an underwriting profit. If the combined ratio is above 100%, it is not profitable without investment income and may not be profitable if investment income is insufficient.

Net premiums written to statutory surplus ratio

The net premiums written to statutory surplus ratio represents the ratio of net premiums written to statutory surplus. This ratio is designed to measure the ability of the Company to absorb above-average losses and the Company’s financial strength. In general, a low premium to surplus ratio is considered a sign of financial strength because the Company is theoretically using its capacity to write more policies. Statutory surplus is determined using accounting principles prescribed or permitted by the insurance subsidiaries’ state of domicile and differs from GAAP equity.

Underwriting gain (loss)

Underwriting gain (loss) measures the pre-tax profitability of insurance operations. It is derived by subtracting losses and LAE, amortization of deferred policy acquisition costs, and other underwriting and general expenses from net premiums earned. Each of these items is presented as a caption in NI Holdings’ Consolidated Statements of Operations.

Net income (loss) and return on average equity

NI Holdings uses net income (loss) to measure its profit and uses return on average equity to measure its effectiveness in utilizing equity to generate net income. In determining return on average equity for a given year, net income (loss) is divided by the average of the beginning and ending equity for that year.

Critical Accounting Policies

General

The preparation of financial statements in accordance with GAAP requires both the use of estimates and judgment relative to the application of appropriate accounting policies. NI Holdings is required to make estimates and assumptions in certain circumstances that affect amounts reported in its financial statements and related footnotes. NI Holdings evaluates these estimates and assumptions on an ongoing basis based on historical developments, market conditions, industry trends, and other information that it believes to be reasonable under the circumstances. There can be no assurance that actual results will conform to its estimates and assumptions and that reported results of operations will not be materially adversely affected by the need to make accounting adjustments to reflect changes in these estimates and assumptions from time to time. The Company believes the following policies are the most sensitive to estimates and judgments.

Unpaid Losses and Loss Adjustment Expenses

How reserves are established

With respect to its traditional property and casualty insurance products, the Company maintains reserves for the payment of claims (indemnity losses) and expenses related to adjusting those claims (LAE). The Company's liability for unpaid losses and LAE consists of (1) case reserves, which are reserves for claims that have been reported to it, and (2) reserves for claims that have been incurred but have not yet been reported and for the future development of case reserves ("IBNR").

When a claim is reported to NI Holdings, its claims personnel establish a case reserve for the estimated amount of the ultimate payment to the extent it can be determined or estimated. The amount of the loss reserve for the reported claim is based primarily upon an evaluation of coverage, liability, damages suffered, and any other information considered pertinent to estimating the exposure presented by the claim. Each claim is contested or settled individually based upon its merits, and some property and casualty claims may take years to resolve, especially if legal action is involved. Case reserves are reviewed on a regular basis and are updated as new information becomes available.

When a catastrophe occurs, which in the Company's case mostly involves the weather perils of wind and hail, NI Holdings utilizes mapping technology through geographic coding of its property risks to overlay the path of the storm. This enables the Company to establish estimated damage amounts based on the wind speed and size of the hail for case or per claim loss amounts. This process allows the Company to determine within a reasonable time (5 – 7 days) an estimated number of claims and estimated loss payments from the storm. If the Company estimates the damages to be in excess of its retained catastrophe amount, reinsurers are notified immediately of a potential loss so that the Company can quickly recover reinsurance payments once the retention is exceeded.

In addition to case reserves, NI Holdings maintains estimates of reserves for losses and LAE incurred but not reported. These reserves include estimates for the future development of case reserves. Some claims may not be reported for several years. As a result, the liability for unpaid losses and LAE includes significant estimates for IBNR.

The Company estimates multi-peril crop insurance losses on a quarterly basis based upon historical loss patterns, current crop conditions, current weather patterns, and input from crop loss adjusters. These estimates have proven to be reasonably accurate indicators of the Company's anticipated losses for this line of business.

NI Holdings utilizes an independent actuary to assist with the estimation of its liability for unpaid losses and LAE. This actuary prepares estimates by first deriving an actuarially based estimate of the ultimate cost of total losses and LAE incurred as of the financial statement date based on established actuarial methods described below. The Company then reduces the estimated ultimate loss and LAE by loss and LAE payments and case reserves carried as of the financial statement date. The actuarially determined estimate is based upon indications from one of the following actuarial methodologies or uses a weighted average of these results. The specific method used to estimate the ultimate losses would vary depending on the judgment of the actuary as to what is the most appropriate method for the property and casualty business. The Company's management reviews these estimates and supplements the actuarial analysis with information not fully incorporated into the actuarially based estimate, such as changes in the external business environment and internal company processes. NI Holdings may adjust the actuarial estimates based on this supplemental information in order to arrive at the amount recorded in the Consolidated Financial Statements.

NI Holdings accrues its ultimate liability for unpaid losses and LAE by using the following actuarial methodologies:

Bornhuetter-Ferguson Method — The Bornhuetter-Ferguson Method is a blended method that explicitly takes into account both actual loss development to date and expected future loss emergence. This method is applied on both a paid loss basis and an incurred loss basis. This method uses selected loss development patterns to calculate the expected percentage of losses unpaid (or unreported). The expected future loss component of the method is calculated by multiplying earned premium for the given exposure period by a selected a priori (i.e. deductive) loss ratio. The resulting dollars are then multiplied by the expected percentage of unpaid (or unreported) losses described above. This provides an estimate of future paid (or reported) losses that is then added to actual paid (or incurred) loss data to produce the estimated ultimate loss.

Paid and Case Incurred Loss Method — The Paid and Case Incurred Loss Development Method utilizes ratios of cumulative paid or case incurred losses or LAE at each age of development as a percent of the preceding development age. Selected ratios are then multiplied together to produce a set of loss development factors which when applied to the most current data value, by accident year, develop estimated ultimate losses or LAE. Ultimate losses or LAE are then selected for each accident year from the various methods employed.

Ratio of Paid ALAE to Paid Loss Method — This method utilizes the ratio of paid allocated loss adjustment expense (“ALAE”) to paid losses and is similar to the Paid and Case Incurred Method described above, except that the data projected are the ratios of paid ALAE to paid losses. The projected ultimate ratio is then multiplied by the selected ultimate losses, by accident year, to yield ultimate ALAE. ALAE reserves are calculated by subtracting paid losses from ultimate ALAE.

The process of estimating loss reserves involves a high degree of judgment and is subject to a number of variables. These variables can be affected by both internal and external events, such as changes in claims handling procedures, inflation, legal trends, and legislative changes, among others. The impact of many of these items on ultimate costs for claims and claim adjustment expenses is difficult to estimate. Loss reserve estimation is affected by the volume of claims, the potential severity of individual claims, the determination of occurrence date for a claim, and reporting lags (the time between the occurrence of the policyholder event and when it is actually reported to the insurer). Informed judgment is applied throughout the process, including the application of various individual experiences and expertise to multiple sets of data and analyses. NI Holdings continually refines its estimates of unpaid losses and LAE in a regular ongoing process as historical loss experience develops and additional claims are reported and settled. NI Holdings considers all significant facts and circumstances known at the time the liabilities for unpaid losses and LAE are established.

There is an inherent amount of uncertainty in the establishment of liabilities for unpaid losses and LAE. This uncertainty is greatest in the current and most recent accident years due to the relative newness of the claims being reported and the relatively small percentage of these claims that have been reported, investigated, and adjusted by the Company’s claims staff. Therefore, the reserves carried in these more recent accident years are generally more conservative than those carried for older accident years. As the Company has the opportunity to investigate and adjust the reported claims, both the case and IBNR reserves are adjusted to more closely reflect the ultimate expected loss.

Other factors that have or can have an impact on the Company’s case and IBNR reserves include but are not limited to those described below.

Changes in liability law and public attitudes regarding damage awards

Laws governing liability claims and judicial interpretations thereof can change over time, which can expand the scope of coverage anticipated by insurers when initially establishing reserves for claims. In addition, public attitudes regarding damage awards can result in judges and juries granting higher recoveries for damages than expected by claims personnel when claims are presented. In addition, these changes can result in both increased claim frequency and severity as both plaintiffs and their legal counsel perceive the opportunity for higher damage awards. Reserves established for claims that occurred in prior years would not have anticipated these legal changes and, therefore, could prove to be inadequate for the ultimate losses paid by the Company, causing the Company to experience adverse development and higher loss payments in future years.

Change in claims handling and/or setting case reserves

Changes in Company personnel and/or the approach to how claims are reported, adjusted, and reserved may affect the reserves established by the Company. As discussed above, the setting of IBNR reserves is not an exact science and involves the expert judgment of an actuary. One actuary’s reserve opinion may differ slightly from another actuary’s opinion. This is the primary reason why the IBNR reserve estimate is customarily reported as a range by a company’s actuary, which provides a company with an acceptable “range” to use in establishing its best estimate for IBNR reserves.

Economic inflation

A sudden and extreme increase in the economic inflation rate could have a significant impact on the Company’s case and IBNR reserves. When establishing case reserves, claims personnel generally establish an amount that in their opinion will provide a conservative amount to settle the loss. If the time to settle the claim extends over a period of years, the initial reserve may not anticipate an economic inflation rate that is significantly higher than the current inflation rate. This can also apply to IBNR reserves. Should the economic inflation rate increase significantly, it is likely that the Company may not anticipate the need to adjust the IBNR reserves accordingly, which could lead to the Company being deficient in its IBNR reserves.

Increases or decreases in claim severity for reasons other than inflation

Factors exist that can drive the cost to settle claims for reasons other than standard inflation. For example, demand surge caused by a very large catastrophe (as in the case of Hurricane Katrina) has an impact on not only the availability and cost of building materials such as roofing and other materials, but also on the availability and cost of labor. Other factors such as increased vehicle traffic in an area not designed to handle the increased congestion and increased speed limits on busy roads are examples of changes that could cause claim severity to increase beyond what the Company's historic reserves would reflect. In addition, unexpected increases in the labor costs and healthcare costs that underlie insured risks, changes in costs of building materials, or changes in commodity prices for insured crops may cause fluctuations in the ultimate development of the case reserves.

Actual settlement experience different from historical data trends

When establishing IBNR reserves, the Company's actuary takes into account many of the factors discussed above. One of the more important factors that is considered when setting reserves is the past or historical claim settlement experience. Our actuary considers factors such as the number of files entering litigation, payment patterns, length of time it takes Company claims personnel to settle the claims, and average payment amounts when estimating reserve amounts. Should future settlement patterns change due to the legal environment, Company claims handling philosophy, or personnel, it may have an impact on the future claims payments, which could cause existing reserves to either be redundant (excessive) or deficient (below) compared to the actual loss amount.

Change in Reporting Lag

As discussed above, NI Holdings and its actuary utilize historical patterns to provide an accurate estimate of what will take place in the future. Should we experience an unexpected delay in reporting time (claims are slower to be reported than in the past), our actuary or we may underestimate the anticipated number of future claims, which could cause the ultimate loss we may experience to be underestimated. A lag in reporting may be caused by changes in how claims are reported (online vs. through company personnel), the type of business or lines of business the Company is writing, the Company's distribution system (direct writer, independent agent, or captive agent), and the geographic area where the Company chooses to insure risk.

Due to the inherent uncertainty underlying loss reserve estimates, final resolution of the estimated liability for unpaid losses and LAE may be higher or lower than the related loss reserves at the reporting date. Therefore, actual paid losses, as claims are settled in the future, may be materially higher or lower in amount than current loss reserves. The Company reflects adjustments to the liability for unpaid losses and LAE in the results of operations during the period in which the estimates are changed.

Actuarial Loss Reserves

NI Holdings' liabilities for unpaid losses and LAE are summarized below:

	June 30, 2018	December 31, 2017
Case reserves	$ 46,379	$ 29,376
IBNR reserves	13,396	12,386
Net unpaid losses and LAE	59,775	41,762
Reinsurance recoverables on losses	3,601	4,128
Liability for unpaid losses and LAE	$ 63,376	$ 45,890

The following table provides case and IBNR reserves for unpaid losses and LAE by segment.

As of June 30, 2018

	Case Reserves	IBNR Reserves	Total Reserves
Private passenger auto	$ 14,107	$ 4,143	$ 18,160
Non-standard auto	5,295	647	5,942
Home and farm	13,945	4,304	18,249
Crop	9,099	22	9,121
All other	4,023	4,280	8,303
Net unpaid losses and LAE	$ 46,379	$ 13,396	$ 59,775
Reinsurance recoverables on losses	2,644	957	3,601
Liability for unpaid losses and LAE	$ 49,023	$ 14,353	$ 63,376

As of December 31, 2017

	Case Reserves	IBNR Reserves	Total Reserves
Private passenger auto	$ 13,008	$ 4,107	$ 17,115
Non-standard auto	5,186	624	5,810
Home and farm	6,667	2,394	9,061
Crop	997	22	1,019
All other	3,518	5,239	8,757
Net unpaid losses and LAE	$ 29,376	$ 12,386	$ 41,762
Reinsurance recoverables on losses	3,171	957	4,128
Liability for unpaid losses and LAE	$ 32,547	$ 13,343	$ 45,890

Sensitivity of Major Assumptions Underlying the Liabilities for Unpaid Losses and Loss Adjustment Expenses

Management has identified the impact on earnings of various factors used in establishing loss reserves so that users of the Company’s financial statements can better understand how development on prior years’ reserves might impact the Company’s results of operations.

Total Reserves

As of June 30, 2018, the impact of a 1% change in our estimate for unpaid losses and LAE, net of reinsurance recoverables, on our net income after income taxes would be approximately $472.

Inflation

Inflation is not explicitly selected in the loss reserve analysis. However, historical inflation is embedded in the estimated loss development reserving function through analysis of costs and trends and reviews of historical reserving results. The following table displays the impact on net income after income taxes resulting from various changes from the inflation factor implicitly embedded in the estimated payment pattern as of December 31, 2017, which is deemed consistent with June 30, 2018. A change in inflation may or may not fully impact loss payments in the future because some of the underlying expenses have already been paid. The table below assumes that any change in inflation will be fully reflected in future loss payments. This variance in future IBNR emergence could occur in one year or over multiple years, depending when the change is recognized.

Change in Inflation	Impact on After-Tax Earnings
-1%	$ (395)
1%	401
3%	1,219
5%	2,062

Inflation includes actual inflation as well as social inflation which includes future emergence of new classes of losses or types of losses, change in judicial awards, and any other changes beyond assumed levels that impact the cost of claims.

Case Reserves

When a claim is reported, claims personnel establish a case reserve for the estimated amount of the ultimate payment to the extent it can be determined or estimated. It is possible that the level of adequacy in the case reserve may differ from historical levels and/or the claims reporting pattern may change. The following table displays the impact on net income after tax that results from various changes to the level of case reserves as of December 31, 2017, which is deemed consistent with June 30, 2018. This variance in future IBNR emergence could occur in one year or over multiple years, depending when the change is recognized.

Change in Case Reserves	Impact on After-Tax Earnings
-10%	$ (2,575)
-5%	(1,287)
-2%	(515)
+2%	515
+5%	1,287
+10%	2,575

Investments

NI Holdings' fixed income securities and equity securities are classified as available-for-sale and carried at estimated fair value as determined by management based upon quoted market prices or a recognized pricing service at the reporting date for those or similar investments. Changes in unrealized investment gains or losses on these investments, net of applicable income taxes, are reflected directly in Equity as a component of comprehensive income (loss) and, accordingly, have no effect on net income (loss). Investment income is recognized when earned, and realized capital gains and losses on investments are recognized when investments are sold, or an other-than-temporary impairment is recognized.

NI Holdings evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis. NI Holdings assesses whether OTTI is present when the fair value of a security is less than its amortized cost. OTTI is considered to have occurred with respect to fixed income securities if (1) an entity intends to sell the security, (2) it is more likely than not an entity will be required to sell the security before recovery of its amortized cost basis, or (3) the present value of the expected cash flows is not sufficient to recover the entire amortized cost basis. When assessing whether the cost or amortized cost basis of the security will be recovered, the Company compares the present value of the expected cash flows likely to be collected, based on an evaluation of all available information relevant to the collectability of the security, to the cost or amortized cost basis of the security. The shortfall of the present value of the cash flows expected to be collected in relation to the cost of amortized cost basis is referred to as the "credit loss". If there is a credit loss, the impairment is considered to be other-than-temporary. If NI Holdings identifies that an other-than-temporary impairment loss has occurred, it then determines whether it intends to sell the security, or if it is more likely than not that the Company will be required to sell the security prior to recovering the cost or amortized cost basis less any current-period credit losses. If NI Holdings determines that it does not intend to sell, and it is not more likely than not that it will be required to sell the security, the amount of the impairment loss related to the credit loss will be recorded in earnings, and the remaining portion of the other-than-temporary impairment loss will be recognized in other comprehensive income (loss), net of income taxes. If NI Holdings determines that it intends to sell the security, or that it is more likely than not that it will be required to sell the security prior to recovering its cost or amortized cost basis less any current-period credit losses, the full amount of the other-than-temporary impairment will be recognized in earnings.

Fair values of interest rate sensitive instruments may be affected by increases and decreases in prevailing interest rates that generally translate, respectively, into decreases and increases in fair values of fixed income securities. The fair values of interest rate sensitive instruments also may be affected by the credit worthiness of the issuer, prepayment options, relative values of other investments, the liquidity of the instrument, and other general market conditions.

For the six months ended June 30, 2018, NI Holdings' investment portfolio experienced a decrease in net unrealized gains of $3,987. The fixed income portion of the portfolio experienced a modest decrease in unrealized gains and a larger decrease in unrealized losses.

NI Holdings has evaluated each security and taken into account the severity and duration of any impairment, the current rating on the bond, and the outlook for the issuer according to independent analysts. The Company's fixed income portfolio is managed by Conning Asset Management, which specializes in the handling of insurance company investments and participates in this evaluation.

For the three and six months ended June 30, 2018, NI Holdings did not recognize any other-than-temporary impairments of its investment securities. For the year ended December 31, 2017, NI Holdings recognized $330 of other-than-temporary impairments of its investment securities.

For more information on the Company's investments, see Note 6 to the Unaudited Consolidated Financial Statements, included elsewhere in this Report.

Fair Value Measurements

NI Holdings uses fair value measurements to record fair value adjustments to certain assets to determine fair value disclosures. Investment securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, NI Holdings may be required to record at fair value other assets on a nonrecurring basis. These nonrecurring fair value adjustments typically involve application of lower-of-cost-or-market accounting or write-downs of individual assets. Accounting guidance on fair value measurements and disclosures establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The three levels of the fair value hierarchy are as follows:

Level I: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level II: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability. Level II includes fixed income securities with quoted prices that are traded less frequently than exchange traded instruments. Valuation techniques include matrix pricing which is a mathematical technique used widely in the industry to value fixed income securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

Level III: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

NI Holdings bases its fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy. Fair value measurements for assets where there exists limited or no observable market data and, therefore, are based primarily upon the estimates of NI Holdings or other third-parties, and are often calculated based on the characteristics of the asset, the economic and competitive environment, and other such factors. Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts which NI Holdings could have realized in a sale transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective period-end and have not been re-evaluated or updated for purposes of our financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end. Additionally, changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future valuations.

NI Holdings uses quoted values and other data provided by an independent pricing service in its process for determining fair values of its investments. The evaluations of such pricing services represent an exit price and a good faith opinion as to what a buyer in the marketplace would pay for a security in a current sale. This pricing service provides NI Holdings with one quote per instrument. For fixed income securities that have quoted prices in active markets, market quotations are provided. For fixed income securities that do not trade on a daily basis, the independent pricing service prepares estimates of fair value using a wide array of observable inputs including relevant market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. The observable market inputs that the Company's independent pricing service utilizes may include (listed in order of priority for use) benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, market bids/offers, and other reference data on markets, industry, and the economy. Additionally, the independent pricing service uses an option-adjusted spread model to develop prepayment and interest rate scenarios. The pricing service did not use broker quotes in determining fair values of the Company's investments.

Should the independent pricing service be unable to provide a fair value estimate, NI Holdings would attempt to obtain a non-binding fair value estimate from a number of broker-dealers and would review this estimate in conjunction with a fair value estimate reported by an independent business news service or other sources. In instances where only one broker-dealer provides a fair value for a fixed income security, NI Holdings would use that estimate. In instances where NI Holdings would be able to obtain fair value estimates from more than one broker-dealer, the Company would review the range of estimates and select the most appropriate value based on the facts and circumstances. Should neither the independent pricing service nor a broker-dealer provide a fair value estimate, NI Holdings would develop a fair value estimate based on cash flow analyses and other valuation techniques that utilize certain unobservable inputs. Accordingly, NI Holdings classifies such a security as a Level III investment.

The fair value estimates of NI Holdings' investments provided by the independent pricing service at each period-end were utilized, among other resources, in reaching a conclusion as to the fair value of its investments.

Management reviews the reasonableness of the pricing provided by the independent pricing service by employing various analytical procedures. Management reviews all securities to identify recent downgrades, significant changes in pricing, and pricing anomalies on individual securities relative to other similar securities. This will include looking for relative consistency across securities in common sectors, durations, and credit ratings. This review will also include all fixed income securities rated lower than "A" by Moody's or Standard & Poor's. If, after this review, management does not believe the pricing for any security is a reasonable estimate of fair value, then it will seek to resolve the discrepancy through discussions with the pricing service. In its review, management did not identify any such discrepancies, and no adjustments were made to the estimates provided by the pricing service, for the six months ended June 30, 2018 or the year ended December 31, 2017. The classification within the fair value hierarchy is then confirmed based on the final conclusions from the pricing review.

For more information on the Company's fair value measurements, see Note 7 to the Unaudited Consolidated Financial Statements, included elsewhere in this Report.

Deferred Policy Acquisition Costs

Certain direct policy acquisition costs consisting of commissions, premium taxes, and other direct underwriting expenses that vary with and are primarily related to the production of business are deferred and amortized over the effective period of the related insurance policies as the underlying policy premiums are earned. At June 30, 2018 and December 31, 2017, deferred policy acquisition costs and the related liability for unearned premiums were as follows:

	June 30, 2018	December 31, 2017
Deferred policy acquisition costs	$ 12,190	$ 8,859
Liability for unearned premiums	99,954	63,262

The method followed in computing deferred policy acquisition costs limits the amount of deferred costs to their estimated realizable value, which gives effect to the premium to be earned, related investment income, losses and LAE, and certain other costs expected to be incurred as the premium is earned. Future changes in estimates, the most significant of which is expected losses and LAE, may require adjustments to deferred policy acquisition costs. If the estimation of net realizable value indicates that the deferred policy acquisition costs are not recoverable, they would be written off or a premium deficiency reserve would be established.

Income Taxes

NI Holdings uses the asset and liability method of accounting for deferred income taxes. Deferred income taxes arise from the recognition of temporary differences between financial statement carrying amounts and the income tax bases of our assets and liabilities. A valuation allowance is provided when it is more likely than not that some portion of the deferred income tax asset will not be realized. The effect of a change in tax rates is recognized in the period of the enactment date. The following tax amounts reflect the new corporate tax rate enacted on December 22, 2017.

NI Holdings had gross deferred income tax assets of $5,986 at June 30, 2018 and $4,279 at December 31, 2017, arising primarily from unearned premiums, loss reserve discounting, and net operating loss carryforwards. A valuation allowance is required to be established for any portion of the deferred income tax asset for which the Company believes it is more likely than not that it will not be realized. A valuation allowance of $628 was maintained at June 30, 2018 and December 31, 2017.

NI Holdings had gross deferred income tax liabilities of $6,053 at June 30, 2018 and $6,190 at December 31, 2017, arising primarily from deferred policy acquisition costs and net unrealized capital gains on investments.

NI Holdings exercises significant judgment in evaluating the amount and timing of recognition of the resulting income tax liabilities and assets. These judgments require NI Holdings to make projections of future taxable income. The judgments and estimates the Company makes in determining its deferred income tax assets, which are inherently subjective, are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require the Company to record a valuation allowance against its deferred income tax assets.

As of June 30, 2018, NI Holdings had no material unrecognized tax benefits or accrued interest and penalties. Federal tax years 2013 through 2016 are open for examination.

Results of Operations

NI Holdings' results of operations are influenced by factors affecting the property and casualty insurance and crop insurance industries in general. The operating results of the United States property and casualty industry and crop insurance industry are subject to significant variations due to competition, weather, catastrophic events, changes in regulation, general economic conditions, rising medical expenses, judicial trends, fluctuations in interest rates, and other changes in the investment environment.

NI Holdings premium levels and underwriting results have been, and continue to be, influenced by market conditions. Pricing in the property and casualty insurance industry historically has been cyclical. During a soft market cycle, price competition is more significant than during a hard market cycle and makes it difficult to attract and retain properly priced business. During a hard market cycle, it is more likely that insurers will be able to increase their rates or profit margins. A hard market typically has a positive effect on premium growth. The markets that NI Holdings serve are diversified, which requires management to regularly monitor the Company's performance and competitive position by line of business and geographic market to schedule appropriate rate actions. We believe that the market is in a "firming" phase in response to higher frequency and severity of weather-related events in our markets as well as the rest of the world.

Premiums in the multi-peril crop insurance business are primarily influenced by the number of acres planted and types of crops insured because the pricing is set by the RMA rather than individual insurance carriers. The expected experience of this business for the calendar year may also significantly impact the reported net earned premiums and losses due to the risk-sharing arrangement with the federal government. Multi-peril crop insurance premiums are generally written in second quarter, and earned ratably over the period of risk, which extends into fourth quarter.

Premiums in the crop hail insurance business are also generally written in second quarter, but earned over a shorter period of risk than multi-peril crop insurance.

Premiums in the personal lines of business (private passenger auto and home and farm) are generally written throughout the year and earned throughout the year. Losses on this business are also incurred throughout the year, but usually are more frequent and/or severe during periods of weather-related activity in the second and third quarters.

For more information on the Company's results of operations by segment, see Note 21 to the Unaudited Consolidated Financial Statements, included elsewhere in this Report.

Three Months ended June 30, 2018 and 2017

The consolidated net income for NI Holdings was $256 for the three months ended June 30, 2018 compared to $117 a year ago. The major components of NI Holdings' operating revenues and net income for the two periods were as follows:

	Three Months Ended June 30,	
	2018	2017
Revenues:		
Net premiums earned	$ 50,677	$ 45,653
Fee and other income	470	321
Net investment income	1,523	1,303
Net realized capital gain on investments	250	339
Total revenues	$ 52,920	$ 47,616
Components of net income:		
Net premiums earned	$ 50,677	$ 45,653
Losses and loss adjustment expenses	40,721	36,230
Amortization of deferred policy acquisition costs and other underwriting and general expenses	11,802	11,425
Underwriting income (loss)	(1,846)	(2,002)
Fee and other income	470	321
Net investment income	1,523	1,303
Net realized capital gain on investments	250	339
Income (loss) before income taxes	397	(39)
Income taxes (benefit)	141	(156)
Net income	$ 256	$ 117

Net Premiums Earned

NI Holdings' net premiums earned for the three months ended June 30, 2018 increased 11.1% to $50,677 compared to $45,653 for the three months ended June 30, 2017.

	Three Months Ended June 30,	
	2018	**2017**
Net premiums earned:		
Private passenger auto	$ 15,310	$ 13,520
Non-standard auto	3,476	2,590
Home and farm	15,621	14,071
Crop	13,441	12,814
All other	2,829	2,658
Total net premiums earned	$ 50,677	$ 45,653

Our personal lines of business (private passenger auto, home and farm) continued to grow outside of North Dakota. Our non-standard auto business also grew year-over-year due to rate increases in Nevada. Our crop business began recognizing premiums in second quarter as the planting season started.

Losses and LAE

NI Holdings' net losses and LAE for the three months ended June 30, 2018 increased 12.4% to $40,721 compared to $36,230 for the three months ended June 30, 2017. The Company's loss and LAE ratio increased to 80.4% for 2018, compared to 79.4% for 2017.

	Three Months Ended June 30,	
	2018	**2017**
Loss and LAE ratio:		
Private passenger auto	73.0%	57.2%
Non-standard auto	85.5%	90.6%
Home and farm	105.8%	103.6%
Crop	67.0%	85.2%
All other	36.7%	25.0%
Total loss and LAE ratio	80.4%	79.4%

The Company's overall loss and LAE experience deteriorated slightly year-over-year. While non-standard auto business improved as a result of strategic pricing and underwriting actions, private passenger auto experience increased from a year ago due to a normal frequency of claims compared to a favorable volume last year. Home and farm experience was slightly higher in 2018 due to additional losses established for late June storms in 2018. Crop insurance experience for second quarter is near targeted levels compared to the early season drought conditions in western North Dakota that we experienced in 2017. The commercial and assumed reinsurance portions of the all other segment experience ran at targeted levels in second quarter 2018 after a favorable second quarter 2017.

NI Holdings realized favorable development on prior accident years of $658 in the second quarter of 2018, compared to $2,167 of favorable development on prior accident years realized in the second quarter of 2017. Net favorable development is primarily the result of prior years' claims settling for less than originally estimated. Adjustments to our original estimates resulting from claims are not made until the period in which there is reasonable evidence that an adjustment to the reserve is appropriate.

Amortization of Deferred Policy Acquisition Costs and Other Underwriting and General Expenses

Total underwriting and general expenses, including amortization of deferred policy acquisition costs, increased slightly to $11,802 in second quarter 2018 compared to $11,425 in 2017. Underlying expenses were $857 lower in the three months ended June 30, 2018 compared to a year ago across various expense categories. Expense deferrals were $1,083 higher in second quarter 2018 compared to second quarter 2017 due to the increase in direct premiums written in 2018, whereas amortization of those costs was $2,317 higher in 2018 due to updated assumptions in our methodology for deferred policy acquisition costs. The expense ratio of 23.3% for the three months ended June 30, 2018 was 1.7% lower than the expense ratio in the second quarter of 2017 due to the increase in net premiums earned.

Underwriting Gain (Loss)

Underwriting gain (loss) measures the pretax profitability of a company's insurance business. It is derived by subtracting losses and LAE, amortization of deferred policy acquisition costs, and other underwriting and general expenses from net premiums earned.

	Three Months Ended June 30,	
	2018	**2017**
Underwriting gain (loss):		
Private passenger auto	$ (568)	$ (134)
Non-standard auto	(387)	(564)
Home and farm	(6,044)	(6,764)
Crop	4,271	4,144
All other	882	1,316
Total underwriting gain (loss)	$ (1,846)	$ (2,002)

The underwriting results of the Company for second quarter improved year-over-year. Private passenger auto had higher loss experience in the second quarter 2018 compared to 2017, while non-standard auto results benefitted from strategic pricing actions taken over the last year. The underwriting loss on home and farm business decreased due to improvement in expenses, partially offset by higher loss experience. Our crop insurance business was slightly better net of reinsurance impacts without the severe drought conditions that impacted 2017. Loss experience on our all other segment increased in 2018 after a favorable second quarter 2017, resulting in a lower comparable underwriting gain in second quarter 2018.

Rate increases and other underwriting actions on our non-standard auto business reduced the underwriting loss modestly from a year ago. Fee income attributable to this segment is a key component in measuring its profitability. Fee income on this business was $330 and $262 for the three months ended June 30, 2018 and 2017, respectively.

Fee and Other Income

NI Holdings had fee and other income of $470 for the three months ended June 30, 2018, compared to $321 for the three months ended June 30, 2017. The majority of fee income is attributable to the non-standard auto business.

Net Investment Income

The following table sets forth our average cash and invested assets, net investment income, and return on average cash and invested assets for the reported periods:

	Three Months Ended June 30,	
	2018	**2017**
Average cash and invested assets	$ 319,016	$ 304,514
Gross investment income	$ 2,051	$ 1,794
Investment expenses	528	491
Net investment income	$ 1,523	$ 1,303
Gross return on average cash and invested assets	2.6%	2.4%
Net return on average cash and invested assets	1.9%	1.7%

Investment income, net of investment expense, increased $220 for the three months ended June 30, 2018 compared to 2017. This increase is attributable to an increase in invested assets caused by the timing of the investment actions taken with respect to the receipt of the proceeds of over $90 million from the Company's initial public offering in March 2017. The weighted average gross yield on invested assets rose to 2.6% in 2018 from 2.4% in 2017.

Net Realized Capital Gain on Investments

NI Holdings had realized capital gains on investment of $250 for the three months ended June 30, 2018, compared to $339 for the three months ended June 30, 2017. The Company recorded $0 and $206 of other-than-temporary impairments in the three months ended June 30, 2018 and 2017, respectively.

The Company's fixed income securities and equity securities are classified as available for sale because it will, from time to time, make sales of securities that are not impaired, consistent with our investment goals and policies. At June 30, 2018, the Company had net unrealized losses on fixed income securities of $2,990 and net unrealized gains on equity securities of $19,316. At December

31, 2017, the Company had net unrealized gains on fixed income securities of $1,780 and net unrealized gains on equity securities of $18,533. The decrease in the fair value of our fixed income securities is attributable to a general rise in the interest rate environment during the first six months of 2018.

NI Holdings has evaluated each security in a loss position and taken into account the severity and duration of the impairment, the current rating on the bond, and the outlook for the issuer according to independent analysts. NI Holdings believes that the foregoing declines in fair value in its existing portfolio are most likely attributable to short-term market trends and there is no evidence that the Company will not recover the entire amortized cost basis.

Income before Income Taxes

For the three months ended June 30, 2018, NI Holdings had pre-tax income of $397 compared to a pre-tax loss of $39 for the three months ended June 30, 2017. The increase in pre-tax income was largely attributable to revenue growth in the private passenger auto line of business while achieving an improved overall combined ratio compared to a year ago.

Income Taxes

NI Holdings recorded income tax expense of $141 for the three months ended June 30, 2018, compared to income tax benefit of $156 for the three months ended June 30, 2017. Our effective tax rate for the second quarter of 2018 was 35.5% compared to an effective tax rate of 400.0% for the second quarter of 2017. The effective tax rates for the second quarter of both years are not meaningful due to the impact of adjustments made to the estimated annualized effective tax rate from quarter to quarter and the near break-even pre-tax operating results experienced for both years.

Due to recent changes in federal tax laws, the corporate income tax rate decreased from a maximum of 35% in 2017 to a flat 21% for tax years 2018 and beyond. Accounting guidance requires that companies re-measure existing deferred income tax assets (including loss carryforwards) and liabilities in the period of enactment of a tax rate change. The guidance also requires any change to a previously recorded valuation allowance as a result of re-measuring existing temporary differences and loss carryforwards to be recognized in the period of enactment. The resulting impact on our deferred income taxes and the related valuation allowance was recognized in the fourth quarter of 2017. The valuation allowance against certain deferred income tax assets remained at $628 as of June 30, 2018, the same amount as December 31, 2017.

Net Income

For the three months ended June 30, 2018, NI Holdings had net income after non-controlling interest of $226 compared to net income after non-controlling interest of $129 for 2017. This increase in net income was primarily attributable to the lower overall combined ratio as well as the revenue growth in our private passenger auto line of business.

Return on Average Equity

For the three months ended June 30, 2018, NI Holdings had annualized return on average equity, after non-controlling interest, of 0.4% compared to annualized return on average equity, after non-controlling interest, of 0.2% for the three months ended June 30, 2017. Average equity is calculated as the average between beginning and ending equity excluding non-controlling interest for the period.

Six Months ended June 30, 2018 and 2017

The consolidated net income for NI Holdings was $6,408 for the six months ended June 30, 2018 compared to $4,866 a year ago. The major components of NI Holdings' operating revenues and net income for the two periods were as follows:

	Six Months Ended June 30,	
	2018	2017
Revenues:		
Net premiums earned	$ 86,789	$ 78,462
Fee and other income	847	668
Net investment income	2,892	2,302
Net realized capital gain on investments	719	955
Total revenues	$ 91,247	$ 82,387
Components of net income:		
Net premiums earned	$ 86,789	$ 78,462
Losses and loss adjustment expenses	59,570	53,951
Amortization of deferred policy acquisition costs and other underwriting and general expenses	23,679	21,444
Underwriting income	3,540	3,067
Fee and other income	847	668
Net investment income	2,892	2,302
Net realized capital gain on investments	719	955
Income before income taxes	7,998	6,992
Income taxes	1,590	2,126
Net income	$ 6,408	$ 4,866

Net Premiums Earned

NI Holdings' net premiums earned for the six months ended June 30, 2018 increased 10.6% to $86,789 compared to $78,462 for the six months ended June 30, 2017.

	Six Months Ended June 30,	
	2018	2017
Net premiums earned:		
Private passenger auto	$ 30,135	$ 26,164
Non-standard auto	6,467	5,121
Home and farm	30,739	27,709
Crop	13,542	13,914
All other	5,906	5,554
Total net premiums earned	$ 86,789	$ 78,462

Our personal lines of business (private passenger auto, home and farm) continued to grow outside of North Dakota. Our non-standard auto business also grew year-over-year due to rate increases in Nevada. Our crop business began to recognize premiums in second quarter as the planting season started, and the current year net premiums earned are based on a lower estimate of annual crop premiums than this same time a year ago.

Losses and LAE

NI Holdings' net losses and LAE for the six months ended June 30, 2018 increased 10.4% to $59,570 compared to $53,951 for the six months ended June 30, 2017. The Company's loss and LAE ratio decreased slightly to 68.6% for 2018, compared to 68.8% for 2017.

	Six Months Ended June 30,	
	2018	2017
Loss and LAE ratio:		
Private passenger auto	70.7%	67.7%
Non-standard auto	76.3%	92.1%
Home and farm	71.1%	68.6%
Crop	68.8%	82.6%
All other	36.7%	18.3%
Total loss and LAE ratio	68.6%	68.8%

The Company’s overall loss and LAE experience was generally steady year-over-year. Private passenger auto as well as home and farm both experienced modestly higher loss and LAE ratios, while experience on the non-standard auto and crop businesses both improved from last year. The assumed reinsurance portion of the all other segment experience rose to more normal levels in the first six months of 2018 compared to a minimal amount of losses in 2017.

NI Holdings realized favorable development on prior accident years of $582 in the six months ended June 30, 2018, compared to $4,966 of favorable development on prior accident years realized in the first six months of 2017. Net favorable development is primarily the result of prior years’ claims settling for less than originally estimated. Adjustments to our original estimates resulting from claims are not made until the period in which there is reasonable evidence that an adjustment to the reserve is appropriate.

Amortization of Deferred Policy Acquisition Costs and Other Underwriting and General Expenses

Total underwriting and general expenses, including amortization of deferred policy acquisition costs, increased $2,235 in 2018, or 10.4%, compared to 2017. Underlying expenses were $382 higher in the six months ended June 30, 2018 due to increased commissions and processing fees related to the increased premium writings, and higher share-based compensation. Expense deferrals were $2,494 higher in 2018 than 2017 due to the increase in direct premiums written in 2018, whereas amortization of those costs was $4,347 higher in 2018 due to updated assumptions in our methodology for deferred policy acquisition costs. The expense ratio of 27.3% for the six months ended June 30, 2018 was the same as a year ago.

Underwriting Gain (Loss)

Underwriting gain (loss) measures the pretax profitability of a company’s insurance business. It is derived by subtracting losses and LAE, amortization of deferred policy acquisition costs, and other underwriting and general expenses from net premiums earned.

	Six Months Ended June 30,	
	2018	2017
Underwriting gain (loss):		
Private passenger auto	$ (284)	$ (1,684)
Non-standard auto	(395)	(1,090)
Home and farm	(1,202)	(1,071)
Crop	3,569	3,812
All other	1,852	3,100
Total underwriting gain	$ 3,540	$ 3,067

The underwriting results for our private passenger auto and non-standard auto businesses improved significantly year-over-year, partially offset by lower underwriting results in home and farm business and our all other segments. Strategic pricing and underwriting actions implemented across the personal lines of business throughout 2017 helped to improve the underlying profitability of those lines in the first half of 2018.

Rate increases and other underwriting actions on our non-standard auto business reduced the underwriting loss considerably from a year ago. Fee income attributable to this segment is a key component in measuring its profitability. Fee income on this business was $651 and $526 for the six months ended June 30, 2018 and 2017, respectively.

The underwriting results on our crop insurance business are lower than a year ago. In 2017, the higher loss ratio caused by the early season drought conditions in western North Dakota were offset by a high level of deferred policy acquisition costs. In 2018, normal loss and expense ratios, including a lower level of deferred policy acquisition costs based on updated assumptions in our methodology, equates to a combined ratio that is slightly higher than last year. The all other segment returned to more normal levels in the first six months of 2018 after a favorable first half of 2017.

Fee and Other Income

NI Holdings had fee and other income of $847 for the six months ended June 30, 2018, compared to $668 for the six months ended June 30, 2017. The majority of fee income is attributable to the non-standard auto business.

Net Investment Income

The following table sets forth our average cash and invested assets, net investment income, and return on average cash and invested assets for the reported periods:

	Six Months Ended June 30,	
	2018	2017
Average cash and invested assets	$ 319,093	$ 255,611
Gross investment income	$ 3,989	$ 3,291
Investment expenses	1,097	989
Net investment income	$ 2,892	$ 2,302
Gross return on average cash and invested assets	2.5%	2.6%
Net return on average cash and invested assets	1.8%	1.8%

Investment income, net of investment expense, increased $590 for the six months ended June 30, 2018 compared to 2017. This increase is attributable to an increase in invested assets caused by the receipt of the proceeds of over $90 million from the Company's initial public offering in March 2017. The weighted average gross yield on invested assets decreased slightly to 2.5% in 2018 compared to 2.6% in 2017, due to the significant increase in the average cash and invested assets from 2017 to 2018.

Net Realized Capital Gain on Investments

NI Holdings had realized capital gains on investment of $719 for the six months ended June 30, 2018, compared to $955 for the six months ended June 30, 2017. The Company recorded $0 and $206 of other-than-temporary impairments in the six months ended June 30, 2018 and 2017, respectively.

The Company's fixed income securities and equity securities are classified as available for sale because it will, from time to time, make sales of securities that are not impaired, consistent with our investment goals and policies. At June 30, 2018, the Company had net unrealized losses on fixed income securities of $2,990 and net unrealized gains on equity securities of $19,316. At December 31, 2017, the Company had net unrealized gains on fixed income securities of $1,780 and net unrealized gains on equity securities of $18,533. The decrease in the fair value of our fixed income securities is attributable to a general rise in the interest rate environment during the first six months of 2018.

NI Holdings has evaluated each security in a loss position and taken into account the severity and duration of the impairment, the current rating on the bond, and the outlook for the issuer according to independent analysts. NI Holdings believes that the foregoing declines in fair value in its existing portfolio are most likely attributable to short-term market trends and there is no evidence that the Company will not recover the entire amortized cost basis.

Income before Income Taxes

For the six months ended June 30, 2018, NI Holdings had pre-tax income of $7,998 compared to pre-tax income of $6,992 for the six months ended June 30, 2017. The increase in pre-tax income was largely attributable to revenue growth in the private passenger auto and home and farm lines of business while maintaining a consistent overall combined ratio compared to a year ago.

Income Taxes

NI Holdings recorded income tax expense of $1,590 for the six months ended June 30, 2018, compared to $2,126 of income tax expense for the six months ended June 30, 2017. Our effective tax rate for the first half of 2018 was 19.9% compared to an effective tax rate of 30.4% for the same period of 2017.

Due to recent changes in federal tax laws, the corporate income tax rate decreased from a maximum of 35% in 2017 to a flat 21% for tax years 2018 and beyond. Accounting guidance requires that companies re-measure existing deferred income tax assets (including loss carryforwards) and liabilities in the period of enactment of a tax rate change. The guidance also requires any change to a previously recorded valuation allowance as a result of re-measuring existing temporary differences and loss carryforwards to be recognized in the period of enactment. The resulting impact on our deferred income taxes and the related valuation allowance was recognized in the fourth quarter of 2017. The valuation allowance against certain deferred income tax assets remained at $628 as of June 30, 2018, the same amount as December 31, 2017.

Net Income

For the six months ended June 30, 2018, NI Holdings had net income after non-controlling interest of $6,348 compared to net income after non-controlling interest of $4,818 for 2017. This increase in net income was primarily attributable to the revenue growth in our personal lines of business as well as the lower corporate income tax rate.

Return on Average Equity

For the six months ended June 30, 2018, NI Holdings had annualized return on average equity, after non-controlling interest, of 5.0% compared to annualized return on average equity, after non-controlling interest, of 5.0% for the six months ended June 30, 2017. Average equity is calculated as the average between beginning and ending equity excluding non-controlling interest for the period.

Financial Position

The major components of NI Holdings' financial position are as follows:

	June 30, 2018	December 31, 2017
Assets		
Cash and investments	$ 324,301	$ 313,885
Premiums and agents' balances receivable	74,175	25,632
Deferred policy acquisition costs	12,190	8,859
Other assets	30,732	28,612
Total assets	$ 441,398	376,988
Liabilities		
Unpaid losses and loss adjustment expenses	$ 63,376	$ 45,890
Unearned premiums	99,954	63,262
Other liabilities	18,502	12,263
Total liabilities	181,832	121,415
Equity	259,566	255,573
Total liabilities and equity	$ 441,398	$ 376,988

At June 30, 2018, NI Holdings had total assets of $441,398, an increase of $64,410, or 17.1%, from December 31, 2017. Receivables from policyholders increased due to recognition of crop insurance sales in second quarter. Deferred policy acquisition costs also increased due to the recognition of sales commissions on crop insurance policies during the second quarter.

At June 30, 2018, total liabilities were $181,832, an increase of $60,417, or 49.8%, from December 31, 2017. Second quarter unpaid losses are typically higher than fourth quarter due to weather-related experience, and also include unpaid losses on crop insurance. Unearned premiums for June 30 reflect the influx of crop insurance premiums written in the second quarter. Other liabilities increased as commissions and processing fees were accrued for crop business.

Total equity increased by $3,993, or 1.6%, during the six months ended June 30, 2018. The increase in equity primarily reflects consolidated net income of $6,408 for the six months ended June 30, 2018, partially offset by a decrease in accumulated other comprehensive income due to lower fair values of our fixed income securities.

Effect of Stock Offering on Nodak Insurance Company and NI Holdings

NI Holdings was formed on March 13, 2017 and became the holding company for Nodak Insurance and its existing subsidiaries. The increased capitalization from our initial public offering should (i) enhance investment income by increasing our investment portfolio, and (ii) provide capital to permit the Company to seek acquisitions and other diversification opportunities. The common stock of NI Holdings was available for public trading on March 16, 2017.

Liquidity and Capital Resources

NI Holdings generates sufficient funds from its operations and maintains a high degree of liquidity in its investment portfolio to meet the demands of claim settlements and operating expenses. The primary sources of funds are premium collections, investment earnings, and maturing investments. In 2017, we raised $93,145 in net proceeds from our initial public offering, which are available if necessary to meet the demands of claim settlements and operating expenses.

The Company's philosophy is to provide sufficient cash flows from operations to meet its obligations in order to minimize the forced sales of investments. The Company maintains a portion of its investment portfolio in relatively short-term and highly liquid assets to ensure the availability of funds.

The change in cash and cash equivalents for the six months ended June 30, 2018 and 2017 were as follows:

	Six Months Ended June 30,	
	2018	2017
Net cash provided by operating activities	$ 14,699	$ 10,449
Net cash used in investing activities	(11,338)	(93,327)
Net cash provided by financing activities	—	82,708
Net increase (decrease) in cash and cash equivalents	$ 3,361	$ (170)

For the six months ended June 30, 2018, net cash provided by operating activities totaled $14,699 compared to $10,449 for the six months ended June 30, 2017. Consolidated net income of $6,408 for the six months ended June 30, 2018 compared to $4,866 for the six months ended June 30, 2017. Unearned premiums and unpaid losses and loss adjustment expenses increased considerably, partially offset by an increase in premiums receivable.

Net cash used in investing activities totaled $11,338 for the six months ended June 30, 2018, compared to $93,327 in the six months ended June 30, 2017, resulting from the opportunity to invest cash generated from operating activities in longer term investments. The 2017 activity also reflects the investment of excess cash raised from our initial public offering.

There was no net cash provided by financing activities for the six months ended June 30, 2018. Net cash provided by financing activities of $82,708 for the six months ended June 30, 2017 reflect the net proceeds from our initial public offering, offset by the initial funding of our new employee stock option plan and the purchase of treasury stock.

As a standalone entity, and outside of the net proceeds from the recent initial public offering, NI Holdings' principal source of long-term liquidity will be dividend payments from Nodak Insurance. Nodak Insurance will be restricted by the insurance laws of North Dakota as to the amount of dividends or other distributions it may pay to NI Holdings. North Dakota law sets the maximum amount of dividends that may be paid by Nodak Insurance during any twelve-month period after notice to, but without prior approval of, the North Dakota Insurance Department. This amount cannot exceed the lesser of (i) 10% of the Company's surplus as regards policyholders as of the preceding December 31, or (ii) the Company's statutory net income for the preceding calendar year (excluding realized capital gains), less any prior dividends paid during such twelve-month period. In addition, any insurance company other than a life insurance company may carry forward net income from the preceding two calendar years, not including realized capital gains, less any dividends actually paid during those two calendar years. Dividends in excess of this amount are considered "extraordinary" and are subject to the approval of the North Dakota Insurance Department.

The amount available for payment of dividends from Nodak Insurance without the prior approval of the North Dakota Insurance Department is approximately $15,654 based upon the policyholders' surplus of Nodak Insurance at December 31, 2017. Prior to its payment of any extraordinary dividend, Nodak Insurance will be required to provide notice of the dividend to the North Dakota Insurance Department. This notice must be provided to the North Dakota Insurance Department 30 days prior to the payment of an extraordinary dividend and 10 days prior to the payment of an ordinary dividend. The North Dakota Insurance Department has the power to limit or prohibit dividend payments if an insurance company is in violation of any law or regulation. These restrictions or any subsequently imposed restrictions may affect our future liquidity. No dividends were declared or paid by Nodak Insurance during the six months ended June 30, 2018 or the year ended December 31, 2017.

As a public company, NI Holdings is subject to the proxy solicitation, periodic reporting, insider trading, and other requirements of the Exchange Act and to most of the provisions of the Sarbanes-Oxley Act of 2002. As a result, NI Holdings anticipates incurring higher levels of expenses related to accounting and legal services that will be necessary to comply with such requirements.

Off-Balance Sheet Arrangements

NI Holdings has no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital reserves.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see Note 5 to the Unaudited Consolidated Financial Statements, included elsewhere in this Report.

Item 3. - Quantitative and Qualitative Disclosures about Market Risk

The Company's assessment of market risk as of June 30, 2018 indicates there have been no material changes in the quantitative and qualitative disclosures from those in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC.

Item 4. - Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as required by Exchange Act Rules 240.13a-15(b) and 15d-14(a)) as of June 30, 2018. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's current disclosure controls and procedures are effective and timely, providing them with material information relating to the Company required to be disclosed in the reports the Company files or submits under the Exchange Act.

Changes in Internal Controls

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2018, to which this report relates that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. -
OTHER INFORMATION

Item 1. - Legal Proceedings

We are party to litigation in the normal course of business. Based upon information presently available to us, we do not consider any litigation to be material. However, given the uncertainties attendant to litigation, we cannot assure you that our results of operations and financial condition will not be materially adversely affected by any litigation.

Item 1A. - Risk Factors

There have been no material changes in our assessment of our risk factors from those set forth in our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 2. - Unregistered Sales of Equity Securities and Use of Proceeds

On January 17, 2017, the SEC declared effective our registration statement on Form S-1 (file number 333-214057) registering our common stock. On March 13, 2017, the Company completed the initial public offering of 10,350,000 shares of common stock at a price of $10.00 per share. The Company received net proceeds of $93,145 from the offering, after deducting underwriting discounts and offering expenses. Griffin Financial Group, LLC acted as our placement agent in connection with the initial public offering.

There has been no material change in the planned use of proceeds from our initial public offering as described in our final prospectus filed with the SEC on January 17, 2017.

On February 28, 2018, our Board of Directors approved an authorization for the repurchase of up to approximately $10 million of the Company’s outstanding common stock. We did not purchase any shares of our common stock during the three or six months ended June 30, 2018.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1]	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Pla (in thousands)
March 1, 2018 to March 31, 2018	—	$ —	—	$
April 1, 2018 to June 30, 2018	—	—	—	
Total Shares of Common Stock	—	$ —	—	$

(1) Shares purchased pursuant to the March 5, 2018 publicly announced share repurchase authorization of up to approximately $10.0 million of the Company’s outstanding common stock.

Item 3. - Defaults upon Senior Securities

Not Applicable

Item 4. - Mine Safety Disclosures

Not Applicable

Item 5. - Other Information

Not Applicable

Item 6. - Exhibits

Exhibit Number	Description
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Linkbase Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 3, 2018.

NI HOLDINGS, INC.

/s/ Michael J. Alexander
Michael J. Alexander
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Brian R. Doom
Brian R. Doom
Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Michael J. Alexander, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NI Holdings, Inc.;

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

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

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

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

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

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

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

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

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

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

August 3, 2018

/s/ Michael J. Alexander
Michael J. Alexander
President and Chief Executive Officer
(*Principal Executive Officer*)

CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Brian R. Doom, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NI Holdings, Inc.;

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

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

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

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

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

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

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

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

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

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

August 3, 2018

/s/ Brian R. Doom
Brian R. Doom
Chief Financial Officer
(*Principal Financial Officer*)

Exhibit 32

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

In connection with the quarterly report of NI Holdings, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Michael J. Alexander, President and Chief Executive Officer, and Brian R. Doom, Chief Financial Officer, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to our knowledge:

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

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

August 3, 2018

/s/ Michael J. Alexander
Michael J. Alexander
President and Chief Executive Officer
(*Principal Executive Officer*)

August 3, 2018

/s/ Brian R. Doom
Brian R. Doom
Chief Financial Officer
(*Principal Financial Officer*)