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

# FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended September 30, 2022**

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

**Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:**

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, $0.01 par value per share | NODK | Nasdaq Capital Market |

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

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

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

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

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

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

The number of shares of Registrant's common stock outstanding on October 31, 2022 was 21,122,367. 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 Company and its subsidiaries and its affiliate (Battle Creek Mutual Insurance Company), Direct Auto Insurance Company (acquired August 31, 2018), and Westminster American Insurance Company (acquired January 1, 2020), for periods discussed after completion of the conversion (discussed below), 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;

- the “conversion” refers to the series of transactions consummated on March 13, 2017, 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 Mutual Group” refers to Nodak Mutual Group, Inc., which is the majority shareholder of NI Holdings;

- “Nodak Mutual” refers to Nodak Mutual Insurance Company, the predecessor company to Nodak Insurance Company prior to the conversion;

- “Nodak Insurance” refers to Nodak Insurance Company or Nodak Mutual Insurance Company interchangeably;

- “members” refers to the policyholders of Nodak Insurance, who are the named insureds under insurance policies issued by Nodak Insurance;

- “Battle Creek” refers to Battle Creek Mutual Insurance Company. Battle Creek became affiliated with Nodak Insurance in 2011, and Nodak Insurance provides underwriting, claims management, policy administration, and other administrative services to Battle Creek. Battle Creek is controlled by Nodak Insurance via a surplus note. The terms of the surplus note allow Nodak Insurance to appoint two-thirds of the Battle Creek Board of Directors;

- “Direct Auto” refers to Direct Auto Insurance Company. On August 31, 2018, NI Holdings completed the acquisition of 100% of the common stock of Direct Auto from the private shareholders of Direct Auto, and Direct Auto became a consolidated subsidiary of NI Holdings. Direct Auto is a property and casualty insurance company specializing in non-standard automobile insurance in the state of Illinois;

- “American West” refers to American West Insurance Company. American West is a wholly-owned subsidiary of Nodak Insurance;

- “Primero” refers to Primero Insurance Company. Primero is an indirect, wholly-owned subsidiary of Nodak Insurance;

- “Westminster” refers to Westminster American Insurance Company. On January 1, 2020, NI Holdings completed the acquisition of 100% of the common stock of Westminster from the private shareholder of Westminster, and Westminster became a consolidated subsidiary of NI Holdings. Westminster is a property and casualty insurance company specializing in commercial multi-peril insurance in the Mid-Atlantic states; and

- “Nodak Agency” refers to Nodak Agency, Inc. Nodak Agency is a wholly-owned subsidiary of Nodak Insurance.

## FORWARD-LOOKING STATEMENTS

This report contains, and management may make, certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, may be forward-looking statements. Words such as “may”, “will”, “should”, “likely”, “anticipates”, “expects”, “intends”, “plans”, “projects”, “believes”, “views”, “estimates”, and similar expressions are used to identify these forward-looking statements. These statements include, among other things, the Company’s statements about:

- our anticipated operating and financial performance, business plans, and prospects;
- strategic reviews, capital allocation objectives, dividends, and share repurchases;
- plans for and prospects of acquisitions, dispositions, and other business development activities, and our ability to successfully capitalize on these opportunities;
- the impact of COVID-19 or a future pandemic and related economic conditions, including the potential impact on the Company's investments;
- our ability to enter new markets successfully and capitalize on growth opportunities either through acquisitions or the expansion of our agent network;
- cyclical changes in the insurance industry, competition, and innovation and emerging technologies;
- expectations for impact of or changes to existing or new government regulations or laws;
- our ability to anticipate and respond to macroeconomic, geopolitical, health and industry trends, pandemics, acts of war, and other large-scale crises;
- developments in general economic conditions, domestic and global financial markets, interest rate, unemployment, or inflation, that could affect the performance of our insurance operations and/or investment portfolio; and
- our ability to effectively manage future growth, including additional necessary capital, systems, and personnel.

Given their nature, we cannot assure that any outcome expressed in these or other forward-looking statements will be realized in whole or in part. Actual outcomes may vary materially from past results and those anticipated, estimated, implied, or projected. These forward-looking statements may be affected by underlying assumptions that may prove inaccurate or incomplete, or by known or unknown risks and uncertainties, including those described in Part II, Item 1A, “Risk Factors” of this Quarterly Report on Form 10-Q and in the Part I, Item 1A, “Risk Factors” section in our Annual Report on Form 10-K for the year ended December 31, 2021 (“2021 Annual Report”). The occurrence of any of the risks identified in the Part II, Item 1A, “Risk Factors” of this Quarterly Report on Form 10-Q or Part I, Item 1A, “Risk Factors” section of the 2021 Annual Report, or other risks currently unknown, could have a material adverse effect on our business, financial condition or results of operations, or we may be required to increase our accruals for contingencies. It is not possible to predict or identify all such factors. Consequently, you should not consider such discussion to be a complete discussion of all potential risks or uncertainties.

Therefore, you are cautioned not to unduly rely on forward-looking statements, which speak only as of the date of this Form 10-Q. We undertake no obligation to update forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities law. You are advised, however, to consult any further disclosures we make on related subjects.

## PART I. - FINANCIAL INFORMATION

### Item 1. - Financial Statements

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

| | September 30, 2022 (Unaudited) | December 31, 2021 |
|---|---|---|
| Assets: | | |
| Cash and cash equivalents | $ 54,277 | $ 70,623 |
| Fixed income securities, at fair value | 294,211 | 364,651 |
| Equity securities, at fair value | 58,377 | 77,690 |
| Other investments | 2,005 | 2,005 |
| Total cash and investments | 408,870 | 514,969 |
| | | |
| Premiums and agents' balances receivable | 102,970 | 51,452 |
| Deferred policy acquisition costs | 29,819 | 24,947 |
| Reinsurance recoverables on losses | 32,990 | 21,200 |
| Income tax recoverable | 11,384 | 364 |
| Accrued investment income | 2,197 | 2,524 |
| Property and equipment | 9,924 | 9,869 |
| Deferred income taxes | 11,975 | - |
| Goodwill and other intangibles | 17,368 | 17,722 |
| Other assets | 9,040 | 8,735 |
| Total assets | $ 636,537 | $ 651,782 |
| | | |
| Liabilities: | | |
| Unpaid losses and loss adjustment expenses | $ 185,937 | $ 139,662 |
| Unearned premiums | 154,409 | 127,789 |
| Reinsurance premiums payable | 1,549 | 326 |
| Deferred income taxes | - | 5,506 |
| Payable to Federal Crop Insurance Corporation | 4,700 | 4,962 |
| Westminster consideration payable | 6,654 | 13,020 |
| Accrued expenses and other liabilities | 32,467 | 13,104 |
| Total liabilities | 385,716 | 304,369 |
| | | |
| Commitments and contingencies | - | - |
| | | |
| Shareholders' equity: | | |
| Common stock, $0.01 par value, authorized: 25,000,000 shares; issued: 23,000,000 shares; and outstanding: 2022 – 21,147,681 shares, 2021 – 21,219,808 shares | 230 | 230 |
| Preferred stock, without par value, authorized 5,000,000 shares; no shares issued or outstanding | - | - |
| Additional paid-in capital | 95,980 | 98,166 |
| Unearned employee stock ownership plan shares | (1,184) | (1,184) |
| Retained earnings | 213,231 | 267,207 |
| Accumulated other comprehensive income (loss), net of income taxes | (31,986) | 5,237 |
| Treasury stock, at cost, 2022 – 1,733,894 shares, 2021 – 1,661,767 shares | (27,508) | (26,452) |
| Non-controlling interest | 2,058 | 4,209 |
| Total shareholders' equity | 250,821 | 347,413 |
| | | |
| Total liabilities and shareholders' equity | $ 636,537 | $ 651,782 |

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Revenues: | | | | |
| Net premiums earned | $ 89,532 | $ 82,173 | $ 243,615 | $ 221,589 |
| Fee and other income | 476 | 501 | 1,319 | 1,338 |
| Net investment income | 2,035 | 1,713 | 5,703 | 4,959 |
| Net investment gains (losses) | (2,868) | 222 | (19,532) | 10,734 |
| Total revenues | 89,175 | 84,609 | 231,105 | 238,620 |
| | | | | |
| Expenses: | | | | |
| Losses and loss adjustment expenses | 78,917 | 65,742 | 227,641 | 165,549 |
| Amortization of deferred policy acquisition costs | 17,589 | 12,898 | 49,456 | 46,371 |
| Other underwriting and general expenses | 5,912 | 12,450 | 23,695 | 23,804 |
| Total expenses | 102,418 | 91,090 | 300,792 | 235,724 |
| | | | | |
| Income (loss) before income taxes | (13,243) | (6,481) | (69,687) | 2,896 |
| Income tax expense (benefit) | (3,074) | (1,622) | (14,921) | 707 |
| Net income (loss) | (10,169) | (4,859) | (54,766) | 2,189 |
| Net income (loss) attributable to non-controlling interest | (184) | (122) | (780) | (99) |
| Net income (loss) attributable to NI Holdings, Inc. | $ (9,985) | $ (4,737) | $ (53,986) | $ 2,288 |
| | | | | |
| Earnings (loss) per common share: | | | | |
| Basic | $ (0.47) | $ (0.22) | $ (2.53) | $ 0.11 |
| Diluted | $ (0.47) | $ (0.22) | $ (2.53) | $ 0.11 |
| | | | | |
| Share data: | | | | |
| Weighted average common shares outstanding used in basic per common share calculations | 21,328,383 | 21,411,654 | 21,360,151 | 21,446,192 |
| Plus: Dilutive securities | - | - | - | 223,784 |
| Weighted average common shares used in diluted per common share calculations | 21,328,383 | 21,411,654 | 21,360,151 | 21,669,976 |

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

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

| | Three Months Ended September 30, 2022 | | | Nine Months Ended September 30, 2022 | | |
|---|---|---|---|---|---|---|
| | Attributable to NI Holdings, Inc. | Attributable to Non-Controlling Interest | Total | Attributable to NI Holdings, Inc. | Attributable to Non-Controlling Interest | Total |
| Net income (loss) | $ (9,985) | $ (184) | $ (10,169) | $ (53,986) | $ (780) | $ (54,766) |
| Other comprehensive income (loss), before income taxes: | | | | | | |
| Holding gains (losses) on investments | (12,319) | (447) | (12,766) | (48,254) | (1,794) | (50,048) |
| Reclassification adjustment for net realized losses (gains) included in net income (loss) | 19 | 20 | 39 | 81 | 20 | 101 |
| Other comprehensive income (loss), before income taxes | (12,300) | (427) | (12,727) | (48,173) | (1,774) | (49,947) |
| Income tax benefit (expense) related to items of other comprehensive income (loss) | 2,796 | 97 | 2,893 | 10,950 | 403 | 11,353 |
| Other comprehensive income (loss), net of income taxes | (9,504) | (330) | (9,834) | (37,223) | (1,371) | (38,594) |
| Comprehensive income (loss) | $ (19,489) | $ (514) | $ (20,003) | $ (91,209) | $ (2,151) | $ (93,360) |

| | Three Months Ended September 30, 2021 | | | Nine Months Ended September 30, 2021 | | |
|---|---|---|---|---|---|---|
| | Attributable to NI Holdings, Inc. | Attributable to Non-Controlling Interest | Total | Attributable to NI Holdings, Inc. | Attributable to Non-Controlling Interest | Total |
| Net income (loss) | $ (4,737) | $ (122) | $ (4,859) | $ 2,288 | $ (99) | $ 2,189 |
| Other comprehensive income (loss), before income taxes: | | | | | | |
| Holding gains (losses) on investments | (1,943) | (58) | (2,001) | (5,674) | (223) | (5,897) |
| Reclassification adjustment for net realized losses (gains) included in net income (loss) | (118) | (2) | (120) | (544) | (2) | (546) |
| Other comprehensive income(loss), before income taxes | (2,061) | (60) | (2,121) | (6,218) | (225) | (6,443) |
| Income tax benefit (expense) related to items of other comprehensive income (loss) | 433 | 12 | 445 | 1,306 | 47 | 1,353 |
| Other comprehensive income (loss), net of income taxes | (1,628) | (48) | (1,676) | (4,912) | (178) | (5,090) |
| Comprehensive income (loss) | $ (6,365) | $ (170) | $ (6,535) | $ (2,624) | $ (277) | $ (2,901) |

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

**NI Holdings, Inc.**
**Consolidated Statements of Changes in Shareholders' Equity (Unaudited)**
**(dollar amounts in thousands)**

| | Three Months Ended September 30, 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock | Additional Paid-in Capital | Unearned Employee Stock Ownership Plan Shares | Retained Earnings | Accumulated Other Comprehensive Income (Loss), Net of Income Taxes | Treasury Stock | Non-Controlling Interest | Total Shareholders' Equity |
| Balance, beginning of period | $ 230 | $ 96,827 | $ (1,184) | $ 223,217 | $ (22,482) | $ (26,569) | $ 2,572 | $ 272,611 |
| Net income (loss) | - | - | - | (9,985) | - | - | (184) | (10,169) |
| Other comprehensive income (loss), net of income taxes | - | - | - | - | (9,504) | - | (330) | (9,834) |
| Purchase of treasury stock | - | - | - | - | - | (939) | - | (939) |
| Share-based compensation | - | (645) | - | - | - | - | - | (645) |
| Issuance of vested award shares | - | (202) | - | (1) | - | - | - | (203) |
| Balance,end of period | $ 230 | $ 95,980 | $ (1,184) | $ 213,231 | $ (31,986) | $ (27,508) | $ 2,058 | $ 250,821 |

| | Nine Months Ended September 30, 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock | Additional Paid-in Capital | Unearned Employee Stock Ownership Plan Shares | Retained Earnings | Accumulated Other Comprehensive Income (Loss), Net of Income Taxes | Treasury Stock | Non-Controlling Interest | Total Shareholders' Equity |
| Balance, beginning of period | $ 230 | $ 98,166 | $ (1,184) | $ 267,207 | $ 5,237 | $ (26,452) | $ 4,209 | $ 347,413 |
| Net income (loss) | - | - | - | (53,986) | - | - | (780) | (54,766) |
| Other comprehensive income (loss), net of income taxes | - | - | - | - | (37,223) | - | (1,371) | (38,594) |
| Purchase of treasury stock | - | - | - | - | - | (2,870) | - | (2,870) |
| Share-based compensation | - | 406 | - | - | - | - | - | 406 |
| Issuance of vested award shares | - | (2,592) | - | 10 | - | 1,814 | - | (768) |
| Balance, end of period | $ 230 | $ 95,980 | $ (1,184) | $ 213,231 | $ (31,986) | $ (27,508) | $ 2,058 | $ 250,821 |

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

**NI Holdings, Inc.**
**Unaudited Consolidated Statements of Changes in Shareholders' Equity**
**(dollar amounts in thousands)**

| Three Months Ended September 30, 2021 | Common Stock | Additional Paid-in Capital | Unearned Employee Stock Ownership Plan Shares | Retained Earnings | Accumulated Other Comprehensive Income (Loss), Net of Income Taxes | Treasury Stock | Non-Controlling Interest | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|---|
| Balance, beginning of period | $ 230 | $ 96,729 | $ (1,427) | $ 265,816 | $ 9,556 | $ (24,403) | $ 4,438 | $ 350,939 |
| Net income (loss) | - | - | - | (4,737) | - | - | (122) | (4,859) |
| Other comprehensive income (loss), net of income taxes | - | - | - | - | (1,628) | - | (48) | (1,676) |
| Purchase of treasury stock | - | - | - | - | - | (944) | - | (944) |
| Share-based compensation | - | 516 | - | - | - | - | - | 516 |
| Issuance of vested award shares | - | - | - | - | - | - | - | - |
| Balance, end of period | $ 230 | $ 97,245 | $ (1,427) | $ 261,079 | $ 7,928 | $ (25,347) | $ 4,268 | $ 343,976 |

| Nine Months Ended September 30, 2021 | Common Stock | Additional Paid-in Capital | Unearned Employee Stock Ownership Plan Shares | Retained Earnings | Accumulated Other Comprehensive Income (Loss), Net of Income Taxes | Treasury Stock | Non-Controlling Interest | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|---|
| Balance, beginning of period | $ 230 | $ 97,911 | $ (1,427) | $ 258,741 | $ 12,840 | $ (23,968) | $ 4,545 | $ 348,872 |
| Net income (loss) | - | - | - | 2,288 | - | - | (99) | 2,189 |
| Other comprehensive income (loss), net of income taxes | - | - | - | - | (4,912) | - | (178) | (5,090) |
| Purchase of treasury stock | - | - | - | - | - | (3,211) | - | (3,211) |
| Share-based compensation | - | 1,704 | - | - | - | - | - | 1,704 |
| Issuance of vested award shares | - | (2,370) | - | 50 | - | 1,832 | - | (488) |
| Balance, end of period | $ 230 | $ 97,245 | $ (1,427) | $ 261,079 | $ 7,928 | $ (25,347) | $ 4,268 | $ 343,976 |

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

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

| | Nine Months Ended September 30, 2022 | Nine Months Ended September 30, 2021 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $ (54,766) | $ 2,189 |
| Adjustments to reconcile net income (loss) to net cash flows from operating activities: | | |
| Net investment losses (gains) | 19,532 | (10,734) |
| Deferred income tax expense (benefit) | (6,128) | (1,304) |
| Depreciation of property and equipment | 517 | 503 |
| Amortization of intangibles | 354 | 354 |
| Share-based compensation | 406 | 1,704 |
| Amortization of deferred policy acquisition costs | 49,456 | 46,371 |
| Deferral of policy acquisition costs | (54,328) | (47,879) |
| Net amortization of premiums and discounts on investments | 1,251 | 1,546 |
| Loss (gain) on sale of property and equipment | (186) | 4 |
| Changes in operating assets and liabilities: | | |
| Premiums and agents' balances receivable | (51,518) | (33,865) |
| Reinsurance premiums receivable / payable | 1,223 | 1,298 |
| Reinsurance recoverables on losses | (11,790) | (33,968) |
| Accrued investment income | 327 | (72) |
| Federal Crop Insurance Corporation receivable / payable | (262) | (2,716) |
| Income tax recoverable / payable | (11,020) | (3,429) |
| Other assets | (305) | (3,163) |
| Unpaid losses and loss adjustment expenses | 46,275 | 73,826 |
| Unearned premiums | 26,620 | 17,736 |
| Accrued expenses and other liabilities | 19,662 | 1,088 |
| Net cash flows from operating activities | (24,680) | 9,489 |
| | | |
| Cash flows from investing activities: | | |
| Proceeds from maturities and sales of fixed income securities | 68,584 | 54,492 |
| Proceeds from sales of equity securities | 13,598 | 26,790 |
| Purchases of fixed income securities | (49,444) | (112,940) |
| Purchases of equity securities | (13,715) | (21,091) |
| Purchases of property and equipment | (384) | (557) |
| Proceeds from sale of other investments and other | - | 835 |
| Net cash flows from investing activities | 18,639 | (52,471) |
| | | |
| Cash flows from financing activities: | | |
| Purchases of treasury stock | (2,870) | (3,211) |
| Installment payment on Westminster consideration payable | (6,667) | (6,667) |
| Issuance of vested award shares | (768) | (488) |
| Net cash flows from financing activities | (10,305) | (10,366) |
| | | |
| Net decrease in cash and cash equivalents | (16,346) | (53,348) |
| | | |
| Cash and cash equivalents at beginning of period | 70,623 | 101,077 |
| | | |
| Cash and cash equivalents at end of period | $ 54,277 | $ 47,729 |
| | | |
| Federal and state income taxes paid | $ 2,360 | $ 5,440 |

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

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

## 1. Organization

NI Holdings is a North Dakota business corporation that is the stock holding company of Nodak Insurance 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 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 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 and its existing subsidiaries.

These Unaudited Consolidated Financial Statements include the financial position and results of NI Holdings and the following other entities:

*Nodak Insurance Company*

Nodak Insurance is the largest domestic property and casualty insurance company in North Dakota, offering private passenger auto, homeowners, farmowners, commercial multi-peril, crop hail, and Federal multi-peril crop insurance coverages through its captive agents in the state.

*Nodak Agency, Inc*

Nodak Agency is an inactive shell corporation.

*American West Insurance Company*

American West 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 coverage in North Dakota, as well as crop hail and Federal multi-peril crop insurance coverages in Minnesota and South Dakota.

*Primero Insurance Company*

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 Mutual Insurance Company*

Battle Creek is a property and casualty insurance company writing personal auto, homeowners, and farm coverages solely in the state of Nebraska. Battle Creek became affiliated with Nodak Insurance in 2011, and Nodak Insurance provides underwriting, claims management, policy administration, and other administrative services to Battle Creek. Because we have concluded that we control Battle Creek, 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 shareholders' equity in our Unaudited Consolidated Balance Sheets and its net income or loss is excluded from net income or loss attributed to NI Holdings in our Unaudited Consolidated Statements of Operations.

*Direct Auto Insurance Company*

Direct Auto is a property and casualty insurance company licensed in Illinois. Direct Auto began writing non-standard automobile coverage in 2007, and was acquired by NI Holdings on August 31, 2018, via a stock purchase agreement.

*Westminster American Insurance Company*

Westminster is a property and casualty insurance company licensed in seventeen states and the District of Columbia. Westminster underwrites commercial multi-peril insurance in the states of Delaware, Georgia, Maryland, New Jersey, North Carolina, Pennsylvania, South Carolina, Virginia, West Virginia, and the District of Columbia. Westminster was acquired by NI Holdings on January 1, 2020, via a stock purchase agreement.

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

Nodak Insurance markets and distributes its policies through its captive agents, while all other companies utilize the independent agent distribution channel. Additionally, all of the Company's insurance subsidiary and affiliate companies are rated "A" Excellent by A.M. Best Company, Inc. ("AM Best").

The same executive management team provides oversight and strategic direction for the entire organization. Nodak Insurance provides common product oversight, pricing practices, and underwriting standards, as well as underwriting and claims administration, to itself, American West, and Battle Creek. Primero, Direct Auto, and Westminster personnel manage the day-to-day operations of their respective companies.

## 2. Basis of Presentation and Accounting Policies

### 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 and are unaudited. 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. All material intercompany transactions and balances have been eliminated. These financial statements should be read in conjunction with the financial statements and notes thereto included in our 2021 Annual Report.

The Consolidated Balance Sheet at December 31, 2021, has been derived from the Audited Consolidated Financial Statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

The preparation of the interim Unaudited Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim Unaudited Consolidated Financial Statements and the reported amounts of revenues, claims, and expenses during the reporting period. Actual results could differ from those estimates. Operating results for the interim period ended September 30, 2022, are not necessarily indicative of the results that may be expected for the year ended December 31, 2022.

Our 2021 Annual Report describes the accounting policies and estimates that are critical to the understanding of our results of operations, financial condition, and liquidity. The accounting policies and estimation processes described in the 2021 Annual Report were consistently applied to the Unaudited Consolidated Financial Statements as of and for the nine months ended September 30, 2022 and 2021.

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

**Recent Accounting Pronouncements**

As an emerging growth company (“EGC”), we have elected to use the extended transition period for complying with any new or revised financial accounting standards from the Financial Accounting Standards Board (“FASB”) pursuant to Section 13(a) of the Exchange Act. We will lose our EGC status December 31, 2022. The following discussion includes effective dates for both public business entities and EGCs, as well as whether specific guidance may be adopted early.

*Not Yet Adopted*

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. In July 2018, the FASB issued additional guidance to allow an optional transition method. An entity may apply the new lease guidance at the beginning of the earliest period presented in the financial statements, or at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The new guidance was effective for annual and interim reporting periods beginning after December 15, 2018, for public business entities. For private companies and EGCs, this guidance is effective for annual reporting periods beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. We will adopt this guidance in the fourth quarter of the year ended December 31, 2022, when we lose our EGC status. 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. Upon adoption, the Company will recognize a right of use asset and operating lease liability on its Consolidated Balance Sheet. The cumulative adjustment to retained earnings is not expected to be significant.

In June 2016, the FASB issued a new standard that requires timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The guidance requires 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. The guidance also requires financial institutions and other organizations to use forward-looking information to better form their credit loss estimates. Many of the loss estimation techniques applied prior to adoption of this standard are still permitted, although the inputs to those techniques have changed to reflect the full amount of expected credit losses. Organizations are to 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 was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, for filers with the Securities and Exchange Commission (“SEC”) excluding smaller reporting companies, and EGCs that did not relinquish private company relief. For all other entities, this guidance will be effective for annual reporting periods beginning after December 15, 2022, and interim periods within those fiscal years. We will adopt this guidance in the fourth quarter of the year ended December 31, 2022, when we lose our EGC status. Based on our evaluation, adoption of this new standard will not have a significant impact on our financial position, results of operations, and cash flows.

In December 2019, the FASB issued amended guidance to simplify the accounting for income taxes. The amended guidance was effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years, for public business entities. For private companies and EGCs, the amended guidance will be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. We will adopt this guidance in the fourth quarter of the year ended December 31, 2022, when we lose our EGC status. Based on our evaluation, adoption of this new standard will not have a significant impact on our financial position, results of operations, and cash flows.

On August 16, 2022, the government of the United States of America (“U.S.”) enacted the Inflation Reduction Act (“IRA”) which, among other changes, created a new corporate alternative minimum tax (“AMT”) based on adjusted financial statement income and imposes a 1% excise tax on corporate stock repurchases. The effective date of these provisions is January 1, 2023. The Company is not expected to be subject to the AMT based on its reported GAAP earnings for the past three years. While we periodically repurchase our stock, it is expected that any excise tax incurred on corporate stock repurchases will be recognized as part of the cost basis of the treasury stock acquired and not reported as part of income tax or other expense. Based on our evaluation, the Company does not expect this legislation to have a significant impact on our financial position, results of operations, and cash flows.

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

## 3. Investments

The amortized cost and estimated fair value of fixed income securities as of September 30, 2022, and December 31, 2021, were as follows:

| | September 30, 2022 | | | |
|---|---|---|---|---|
| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Fixed income securities: | | | | |
| U.S. Government and agencies | $ 11,176 | $ 3 | $ (1,042) | $ 10,137 |
| Obligations of states and political subdivisions | 62,849 | 2 | (7,476) | 55,375 |
| Corporate securities | 138,603 | 40 | (17,863) | 120,780 |
| Residential mortgage-backed securities | 42,632 | - | (6,238) | 36,394 |
| Commercial mortgage-backed securities | 32,355 | - | (4,688) | 27,667 |
| Asset-backed securities | 45,087 | 1 | (5,199) | 39,889 |
| Redeemable preferred stocks | 4,746 | - | (777) | 3,969 |
| Total fixed income securities | $ 337,448 | $ 46 | $ (43,283) | $ 294,211 |

| | December 31, 2021 | | | |
|---|---|---|---|---|
| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Fixed income securities: | | | | |
| U.S. Government and agencies | $ 13,118 | $ 467 | $ (87) | $ 13,498 |
| Obligations of states and political subdivisions | 84,668 | 2,979 | (353) | 87,294 |
| Corporate securities | 144,476 | 4,214 | (1,069) | 147,621 |
| Residential mortgage-backed securities | 26,190 | 266 | (300) | 26,156 |
| Commercial mortgage-backed securities | 32,878 | 815 | (161) | 33,532 |
| Asset-backed securities | 52,604 | 131 | (313) | 52,422 |
| Redeemable preferred stocks | 4,008 | 136 | (16) | 4,128 |
| Total fixed income securities | $ 357,942 | $ 9,008 | $ (2,299) | $ 364,651 |

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 may have the right to call or prepay these securities.

| | September 30, 2022 | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Due to mature: | | |
| One year or less | $ 10,662 | $ 10,534 |
| After one year through five years | 83,431 | 77,755 |
| After five years through ten years | 77,360 | 65,378 |
| After ten years | 41,175 | 32,625 |
| Mortgage / asset-backed securities | 120,074 | 103,950 |
| Redeemable preferred stocks | 4,746 | 3,969 |
| Total fixed income securities | $ 337,448 | $ 294,211 |

| | December 31, 2021 | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Due to mature: | | |
| One year or less | $ 14,457 | $ 14,586 |
| After one year through five years | 82,429 | 84,760 |
| After five years through ten years | 82,270 | 84,173 |
| After ten years | 63,106 | 64,894 |
| Mortgage / asset-backed securities | 111,672 | 112,110 |
| Redeemable preferred stocks | 4,008 | 4,128 |
| Total fixed income securities | $ 357,942 | $ 364,651 |

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

Fixed income securities with a fair value of $6,650 at September 30, 2022, and $7,977 at December 31, 2021, were deposited with various state regulatory agencies as required by law. The Company has not pledged any assets to secure any obligations.

The investment category and duration of the Company's gross unrealized losses on fixed income securities are shown below. 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.

| | September 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 7,546 | $ (584) | $ 2,227 | $ (458) | $ 9,773 | $ (1,042) |
| Obligations of states and political subdivisions | 47,043 | (5,250) | 7,205 | (2,226) | 54,248 | (7,476) |
| Corporate securities | 89,929 | (11,092) | 28,951 | (6,771) | 118,880 | (17,863) |
| Residential mortgage-backed securities | 24,399 | (3,460) | 11,995 | (2,778) | 36,394 | (6,238) |
| Commercial mortgage-backed securities | 24,091 | (3,841) | 3,303 | (847) | 27,394 | (4,688) |
| Asset-backed securities | 28,379 | (3,231) | 11,487 | (1,968) | 39,866 | (5,199) |
| Redeemable preferred stocks | 3,171 | (575) | 798 | (202) | 3,969 | (777) |
| Total fixed income securities | $ 224,558 | $ (28,033) | $ 65,966 | $ (15,250) | $ 290,524 | $ (43,283) |

| | December 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 3,125 | $ (87) | $ - | $ - | $ 3,125 | $ (87) |
| Obligations of states and political subdivisions | 19,769 | (350) | 222 | (3) | 19,991 | (353) |
| Corporate securities | 46,816 | (1,015) | 1,895 | (54) | 48,711 | (1,069) |
| Residential mortgage-backed securities | 17,407 | (261) | 1,434 | (39) | 18,841 | (300) |
| Commercial mortgage-backed securities | 11,287 | (160) | 216 | (1) | 11,503 | (161) |
| Asset-backed securities | 28,797 | (308) | 995 | (5) | 29,792 | (313) |
| Redeemable preferred stocks | 1,493 | (16) | - | - | 1,493 | (16) |
| Total fixed income securities | $ 128,694 | $ (2,197) | $ 4,762 | $ (102) | $ 133,456 | $ (2,299) |

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 credit loss component of the impairment is reflected in net income (loss) as a realized loss on investment if the Company does not intend to sell the security, and the remaining portion of the other-than-temporary loss is recognized in other comprehensive income (loss), net of income taxes. If the Company intends to sell the security, or determines 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 loss is recognized in net income (loss). The Company did not record any other-than-temporary impairments during the three- or nine-month periods ending September 30, 2022, or the year ended December 31, 2021.

**NI Holdings, Inc.**
**Notes to Consolidated Financial Statements (Unaudited)**
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Net investment income consisted of the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Fixed income securities | $ 2,303 | $ 2,104 | $ 6,870 | $ 6,227 |
| Equity securities | 402 | 275 | 1,126 | 820 |
| Real estate | 149 | 156 | 390 | 469 |
| Cash and cash equivalents | 18 | 1 | 30 | 3 |
| Total gross investment income | 2,872 | 2,536 | 8,416 | 7,519 |
| Investment expenses | 837 | 823 | 2,713 | 2,560 |
| Net investment income | $ 2,035 | $ 1,713 | $ 5,703 | $ 4,959 |

Net investment gains (losses) consisted of the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Gross realized gains: | | | | |
| Fixed income securities | $ 67 | $ 131 | $ 118 | $ 572 |
| Equity securities | 1,219 | 2,674 | 3,488 | 9,194 |
| Total gross realized gains | 1,286 | 2,805 | 3,606 | 9,766 |
| | | | | |
| Gross realized losses, excluding other-than-temporary impairment losses: | | | | |
| Fixed income securities | (106) | (12) | (219) | (26) |
| Equity securities | (1,097) | (60) | (1,339) | (230) |
| Total gross realized losses, excluding other-than-temporary impairment losses | (1,203) | (72) | (1,558) | (256) |
| | | | | |
| Net realized gains | 83 | 2,733 | 2,048 | 9,510 |
| | | | | |
| Change in net unrealized gain on equity securities | (2,951) | (2,511) | (21,580) | 1,224 |
| Net investment gains (losses) | $ (2,868) | $ 222 | $ (19,532) | $ 10,734 |

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

## 4. Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Investment securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record other assets or liabilities at fair value 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).

The Company 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 the Company or other third-parties, 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 limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts which could have been 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.

The Company 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 independent pricing service provides us 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 independent pricing service did not use broker quotes in determining any fair values of the Company's investments at September 30, 2022, or December 31, 2021.

Should the independent pricing service be unable to provide a fair value estimate, we 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, we would use that estimate. In instances where we would be able to obtain fair value estimates from more than one broker-dealer, we 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, we would develop a fair value estimate based on cash flow analyses and other valuation techniques that utilize certain unobservable inputs. Accordingly, the Company classifies such a security as a Level III investment.

The fair value estimates of the Company's 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.

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

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 Investors Service, Inc. or Standard & Poor’s Financial Services LLC. 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 nine-month period ended September 30, 2022, or the year ended December 31, 2021. The classification within the fair value hierarchy is then confirmed based on the final conclusions from the pricing review.

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 our 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 at Level III at September 30, 2022, or December 31, 2021.

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

| | September 30, 2022 | | | |
|---|---|---|---|---|
| | Total | Level I | Level II | Level III |
| Fixed income securities: | | | | |
| U.S. Government and agencies | $ 10,137 | $ - | $ 10,137 | $ - |
| Obligations of states and political subdivisions | 55,375 | - | 55,375 | - |
| Corporate securities | 120,780 | - | 120,780 | - |
| Residential mortgage-backed securities | 36,394 | - | 36,394 | - |
| Commercial mortgage-backed securities | 27,667 | - | 27,667 | - |
| Asset-backed securities | 39,889 | - | 39,889 | - |
| Redeemable preferred stock | 3,969 | - | 3,969 | - |
| Total fixed income securities | 294,211 | - | 294,211 | - |
| | | | | |
| Equity securities: | | | | |
| Common stock | 56,569 | 56,569 | - | - |
| Non-redeemable preferred stock | 1,808 | 1,808 | - | - |
| Total equity securities | 58,377 | 58,377 | - | - |
| | | | | |
| Cash equivalents | 26,357 | 26,357 | - | - |
| Total assets at fair value | $ 378,945 | $ 84,734 | $ 294,211 | $ - |

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

| | December 31, 2021 | | | |
|---|---|---|---|---|
| | Total | Level I | Level II | Level III |
| Fixed income securities: | | | | |
| U.S. Government and agencies | $ 13,498 | $ - | $ 13,498 | $ - |
| Obligations of states and political subdivisions | 87,294 | - | 87,294 | - |
| Corporate securities | 147,621 | - | 147,621 | - |
| Residential mortgage-backed securities | 26,156 | - | 26,156 | - |
| Commercial mortgage-backed securities | 33,532 | - | 33,532 | - |
| Asset-backed securities | 52,422 | - | 52,422 | - |
| Redeemable preferred stock | 4,128 | - | 4,128 | - |
| Total fixed income securities | 364,651 | - | 364,651 | - |
| | | | | |
| Equity securities: | | | | |
| Common Stock | 75,143 | 75,143 | - | - |
| Non-redeemable preferred stock | 2,547 | 2,547 | - | - |
| Total equity securities | 77,690 | 77,690 | - | - |
| | | | | |
| Cash equivalents | 45,741 | 45,741 | - | - |
| Total assets at fair value | $ 488,082 | $ 123,431 | $ 364,651 | $ - |

There were no liabilities measured at fair value on a recurring basis at September 30, 2022, or December 31, 2021.

## 5. Reinsurance

The Company cedes and assumes certain premiums and losses to and from various companies and associations under a variety of 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 through facultative contracts on substantial individual risks. Reinsurance contracts do not relieve the Company from its obligation to policyholders.

During the nine-month period ended September 30, 2022, the Company retained the first $15,000 of weather-related losses from catastrophic events and had reinsurance under various reinsurance agreements up to $125,000 in excess of its $15,000 retained risk. The Company experienced multiple severe weather events during the second quarter of 2022 which have continued to develop during the third quarter of 2022 and resulted in an accrual for reinsurance recoveries at September 30, 2022.

During the year ended December 31, 2021, the Company retained the first $10,000 of weather-related losses from catastrophic events and had reinsurance under various reinsurance agreements up to $117,000 in excess of its $10,000 retained risk. The Company experienced one catastrophe event during the second quarter of 2021 in excess of the retention level.

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 reinsurance recoverables on paid and unpaid losses were due from reinsurance companies with AM Best ratings of "A" or higher.

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**Notes to Consolidated Financial Statements (Unaudited)**
**(dollar amounts in thousands, except per share amounts)**

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

| | Three Months Ended September 30, 2022 | | Nine Months Ended September 30, 2022 | |
|---|---|---|---|---|
| | Premiums Written | Premiums Earned | Premiums Written | Premiums Earned |
| Direct premium | $ 81,147 | $ 102,173 | $ 301,642 | $ 269,823 |
| Assumed premium | 680 | 2,460 | 5,767 | 6,012 |
| Ceded premium | (10,765) | (15,101) | (36,600) | (32,220) |
| Net premiums | $ 71,062 | $ 89,532 | $ 270,809 | $ 243,615 |

| | Three Months Ended September 30, 2021 | | Nine Months Ended September 30, 2021 | |
|---|---|---|---|---|
| | Premiums Written | Premiums Earned | Premiums Written | Premiums Earned |
| Direct premium | $ 68,905 | $ 93,740 | $ 266,877 | $ 249,542 |
| Assumed premium | 1,316 | 1,336 | 6,342 | 6,300 |
| Ceded premium | (3,495) | (12,903) | (36,812) | (34,253) |
| Net premiums | $ 66,726 | $ 82,173 | $ 236,407 | $ 221,589 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Direct losses and loss adjustment expenses | $ 94,446 | $ 87,453 | $ 250,611 | $ 201,630 |
| Assumed losses and loss adjustment expenses | 868 | 2,308 | 2,413 | 5,216 |
| Ceded losses and loss adjustment expenses | (16,397) | (24,019) | (25,383) | (41,297) |
| Net losses and loss adjustment expenses | $ 78,917 | $ 65,742 | $ 227,641 | $ 165,549 |

If 100% of our ceded reinsurance was cancelled as of September 30, 2022, or December 31, 2021, no ceded commissions would need to be returned to the reinsurers. Reinsurance contracts are typically effective from January 1 through December 31 each year.

## 6. Deferred Policy Acquisition Costs

Expenses directly related to successfully acquired insurance policies, primarily commissions, premium taxes and underwriting costs, are deferred and amortized over the terms of the policies. We update our acquisition cost assumptions periodically to reflect actual experience, and we evaluate the costs for recoverability. The table below shows the deferred policy acquisition costs and asset reconciliation:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Balance, beginning of period | $ 30,917 | $ 29,657 | $ 24,947 | $ 23,968 |
| Deferral of policy acquisition costs | 16,491 | 8,717 | 54,328 | 47,879 |
| Amortization of deferred policy acquisition costs | (17,589) | (12,898) | (49,456) | (46,371) |
| Balance, end of period | $ 29,819 | $ 25,476 | $ 29,819 | $ 25,476 |

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

## 7. Unpaid Losses and Loss Adjustment Expenses

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

| | Nine Months Ended September 30, 2022 | Nine Months Ended September 30, 2021 |
|---|---|---|
| Balance, beginning of period: | | |
| Liability for unpaid losses and loss adjustment expenses | $ 139,662 | $ 105,750 |
| Reinsurance recoverables on losses | 21,200 | 8,710 |
| Net balance, beginning of period | 118,462 | 97,040 |
| | | |
| Incurred related to: | | |
| Current year | 234,823 | 172,443 |
| Prior years | (7,182) | (6,894) |
| Total incurred | 227,641 | 165,549 |
| | | |
| Paid related to: | | |
| Current year | 141,810 | 86,251 |
| Prior years | 51,346 | 39,440 |
| Total paid | 193,156 | 125,691 |
| | | |
| Balance, end of period: | | |
| Liability for unpaid losses and loss adjustment expenses | 185,937 | 179,576 |
| Reinsurance recoverables on losses | 32,990 | 42,678 |
| Net balance, end of period | $ 152,947 | $ 136,898 |

During the nine months ended September 30, 2022, the Company’s reported incurred losses and loss adjustment expenses included $7,182 of net favorable development on prior accident years, primarily attributable to Battle Creek and American West. During the nine months ended September 30, 2021, the Company’s incurred reported losses and loss adjustment expenses included $6,894 of net favorable development on prior accident years, primarily attributable to Nodak Insurance, Direct Auto, and American West.

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.

## 8. Property and Equipment

Property and equipment consisted of the following:

| | September 30, 2022 | December 31, 2021 | Estimated Useful Life |
|---|---|---|---|
| Cost: | | | |
| Land | $ 1,403 | $ 1,403 | indefinite |
| Building and improvements | 14,160 | 14,193 | 10–40 years |
| Electronic data processing equipment | 1,565 | 1,518 | 5–7 years |
| Furniture and fixtures | 2,919 | 2,885 | 5–7 years |
| Automobiles | 1,310 | 1,228 | 2–3 years |
| Gross cost | 21,357 | 21,227 | |
| | | | |
| Accumulated depreciation | (11,433) | (11,358) | |
| Total property and equipment, net | $ 9,924 | $ 9,869 | |

Depreciation expense was $174 and $162 for the three months ended September 30, 2022 and 2021, respectively, and $517 and $503 for the nine months ended September 30, 2022 and 2021, respectively.

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

## 9. Goodwill and Other Intangibles

***Goodwill***

The following table presents the carrying amount of the Company's goodwill by segment:

| | September 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| Non-standard auto from acquisition of Primero | $ | 2,628 | $ | 2,628 |
| Commercial from acquisition of Westminster | | 6,756 | | 6,756 |
| Total | $ | 9,384 | $ | 9,384 |

***Other Intangible Assets***

The following table presents the carrying amount of the Company's other intangible assets:

| September 30, 2022 | Gross Carrying Amount | | Accumulated Amortization | | Net | |
|---|---|---|---|---|---|---|
| Subject to amortization: | | | | | | |
| Trade names | $ | 748 | $ | 340 | $ | 408 |
| Distribution network | | 6,700 | | 1,024 | | 5,676 |
| Total subject to amortization | | 7,448 | | 1,364 | | 6,084 |
| | | | | | | |
| Not subject to amortization: | | | | | | |
| State insurance licenses | | 1,900 | | - | | 1,900 |
| Total | $ | 9,348 | $ | 1,364 | $ | 7,984 |

| December 31, 2021 | Gross Carrying Amount | | Accumulated Amortization | | Net | |
|---|---|---|---|---|---|---|
| Subject to amortization: | | | | | | |
| Trade names | $ | 748 | $ | 265 | $ | 483 |
| Distribution network | | 6,700 | | 745 | | 5,955 |
| Total subject to amortization | | 7,448 | | 1,010 | | 6,438 |
| Not subject to amortization: | | | | | | |
| State insurance license | | 1,900 | | - | | 1,900 |
| Total | $ | 9,348 | $ | 1,010 | $ | 8,338 |

Amortization expense was $118 and $118 for the three months ended September 30, 2022 and 2021, respectively, and $354 and $354 for the nine months ended September 30, 2022 and 2021, respectively.

Other intangible assets that have finite lives, including trade names and distribution networks, are amortized over their useful lives. As of September 30, 2022, the estimated amortization of other intangible assets with finite lives for the next five years and thereafter is as follows:

| Year ending December 31, | Amount | |
|---|---|---|
| 2022 (three months remaining) | $ | 118 |
| 2023 | | 455 |
| 2024 | | 422 |
| 2025 | | 422 |
| 2026 | | 422 |
| Thereafter | | 4,245 |
| Total other intangible assets with finite lives | $ | 6,084 |

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

**10. Related Party Transactions**

***Intercompany Reinsurance Pooling Arrangement***

Effective January 1, 2020, all of our insurance subsidiary and affiliate companies entered into an intercompany reinsurance pooling agreement. This agreement was finalized, approved, and implemented during the fourth quarter of 2020, retroactive to the January 1 effective date. Nodak Insurance is the lead company of the pool, and assumes the net premiums, net losses, and underwriting expenses from each of the other five companies. Nodak Insurance then retrocedes balances back to each company, while retaining its own share of the pool's net underwriting results, based on individual pool percentages established in the respective pooling agreement. This arrangement allows each insurance company to rely upon the capacity of the pool's total statutory capital and surplus. As a result, they are evaluated by AM Best on a group basis and hold a single combined financial strength rating, long-term issuer credit rating, and financial size category.

In connection with the pooling agreement, the quota share agreement between Battle Creek and Nodak Insurance was cancelled. As a result, the Company's consolidated financial position and results of operations are impacted by the portion of Battle Creek's underwriting results that are allocated to the policyholders of Battle Creek rather than the shareholders of NI Holdings. For the nine months ended September 30, 2022, and the year ended December 31, 2021, the pooling share percentages by insurance company were:

| | Pool Percentage |
|---|---|
| Nodak Insurance Company | 66.0% |
| American West Insurance Company | 7.0% |
| Primero Insurance Company | 3.0% |
| Battle Creek Mutual Insurance Company | 2.0% |
| Direct Auto Insurance Company | 13.0% |
| Westminster American Insurance Company | 9.0% |
| Total | 100.0% |

***North Dakota Farm Bureau***

We were organized by the North Dakota Farm Bureau ("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 policies. Royalties paid to the NDFB were $397 and $370 during the three months ended September 30, 2022 and 2021, respectively, and $1,141 and $1,102 for the nine months ended September 30, 2022 and 2021, respectively. Royalty amounts payable of $74 and $113 were accrued as a liability to the NDFB at September 30, 2022, and December 31, 2021, respectively.

***Dividends***

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, 2021, 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 during 2022 without the prior approval of the North Dakota Insurance Department is $21,493 based upon the surplus of Nodak Insurance at December 31, 2021. Prior to its payment of any 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 nine months ended September 30, 2022, or the year ended December 31, 2021.

Direct Auto was re-domesticated from Illinois to North Dakota during 2021, and is now subject to the same dividend restrictions as Nodak Insurance. The amount available for payment of dividends from Direct Auto to NI Holdings during 2022 without the prior approval of the North Dakota Insurance Department is $3,796 based upon the surplus of Direct Auto at December 31, 2021. No dividends were declared or paid by Direct Auto during the nine months ended September 30, 2022, or the year ended December 31, 2021.

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

Westminster was re-domesticated from Maryland to North Dakota during 2021, and is now subject to the same dividend restrictions as Nodak Insurance. The amount available for payment of dividends from Westminster to NI Holdings during 2022 without the prior approval of the North Dakota Insurance Department is $2,471 based upon the surplus of Westminster at December 31, 2021. No dividends were declared or paid by Westminster during the nine months ended September 30, 2022, or the year ended December 31, 2021.

***Battle Creek Mutual Insurance Company***

The following tables illustrates the impact of including Battle Creek in our Unaudited Consolidated Balance Sheets and Statements of Operations prior to intercompany eliminations:

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Assets: | | |
| Cash and cash equivalents | $ 9,003 | $ 4,398 |
| Investments | 8,339 | 10,610 |
| Premiums and agents' balances receivable | 5,696 | 5,038 |
| Deferred policy acquisition costs | 596 | 499 |
| Reinsurance recoverables on losses (2) | 6,094 | 10,173 |
| Accrued investment income | 43 | 51 |
| Property and equipment | 323 | 325 |
| Pooling receivable (1) | 277 | - |
| Deferred income taxes | 774 | 142 |
| Other assets | 53 | 52 |
| Total assets | $ 31,198 | $ 31,288 |
| | | |
| Liabilities: | | |
| Unpaid losses and loss adjustment expenses | $ 6,675 | $ 2,937 |
| Unearned premiums | 3,088 | 2,544 |
| Notes payable (1) | 3,000 | 3,000 |
| Pooling payable (1) | - | 5,580 |
| Reinsurance losses payable (2) | 11,558 | 12,754 |
| Accrued expenses and other liabilities | 4,819 | 264 |
| Total liabilities | 29,140 | 27,079 |
| | | |
| Equity: | | |
| Non-controlling interest | 2,058 | 4,209 |
| Total equity | 2,058 | 4,209 |
| | | |
| Total liabilities and equity | $ 31,198 | $ 31,288 |

(1) Amount fully eliminated in consolidation.
(2) Amount partially eliminated in consolidation.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Revenues: | | | | |
| Net premiums earned | $ 1,790 | $ 1,499 | $ 4,872 | $ 4,594 |
| Fee and other income (expenses) | (1) | (6) | (8) | (8) |
| Net investment income (loss) | (8) | 17 | 32 | 40 |
| Total revenues | 1,781 | 1,510 | 4,896 | 4,626 |
| Expenses: | | | | |
| Losses and loss adjustment expenses | 1,579 | 1,179 | 4,553 | 3,448 |
| Amortization of deferred policy acquisition costs | 352 | 258 | 989 | 927 |
| Other underwriting and general expenses | 89 | 209 | 363 | 356 |
| Total expenses | 2,020 | 1,646 | 5,905 | 4,731 |
| Income (loss) before income taxes | (239) | (136) | (1,009) | (105) |
| Income tax expense (benefit) | (55) | (14) | (229) | (6) |
| Net income (loss) | $ (184) | $ (122) | $ (780) | $ (99) |

## 11. Benefit Plans

Nodak Insurance sponsors a 401(k) plan with an automatic and matching contribution for eligible employees at Nodak Insurance, Primero, and Direct Auto. Westminster also sponsors a separate 401(k) plan. The Company reported expenses related to the 401(k) plans totaling $167 and $178 during the three months ended September 30, 2022 and 2021, respectively, and $502 and $525 during the nine months ended September 30, 2022 and 2021, respectively.

Nodak Insurance also contributes an additional elective amount of employee compensation as a profit-sharing contribution for eligible employees that is invested in a portfolio of investments directed by the Company. The reported expenses related to this profit-sharing contribution were $216 and $165 during the three months ended September 30, 2022 and 2021, respectively, and $648 and $704 during the nine months ended September 30, 2022 and 2021, respectively.

All fees associated with the plans are deducted from the eligible employee accounts.

The Company also offers a non-qualified deferred compensation plan to key executives of the Company (as designated by the Board of Directors). The Company's policy is to fund the plan by amounts that represent the excess of the maximum contribution allowed by the Employee Retirement Income Security Act ("ERISA") over the key executives' allowable 401(k) contribution. The plan also allows employee-directed deferral of key executive's compensation or incentive payments. The Company reported expenses related to this plan totaling $23 and $21 during the three months ended September 30, 2022 and 2021, respectively, and $150 and $588 during the nine months ended September 30, 2022 and 2021, respectively.

In connection with our initial public offering ("IPO") in March 2017, the Company 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 invests solely in common stock of the Company.

Upon establishment of the plan, Nodak Insurance loaned $2,400 to the ESOP's related trust (the "ESOP Trust"). The ESOP loan was for a period of ten years, bearing 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 IPO, which resulted 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. Nodak Insurance makes 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 are released from the suspense account and allocated to participant accounts at the end of the calendar year. This release and allocation occurs on an annual basis over the ten-year term of the ESOP loan. Nodak Insurance has 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.

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

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 ESOP participants are employees of Nodak Insurance. The employees of Primero, Direct Auto, and Westminster do not participate in the ESOP. American West and Battle Creek have no employees.

Each employee of Nodak Insurance automatically becomes 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 receive annual reports from the Company showing the number of shares of common stock of the Company allocated to the participants' accounts 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 establishment of the ESOP, the Company created a contra-equity account on the 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 IPO. As shares are released from the ESOP suspense account, the contra-equity account is credited, which reduces the impact of the contra-equity account on the Company's Consolidated Balance Sheet over time. The Company records compensation expense related to the shares released, 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 $88 and $116 during the three months ended September 30, 2022 and 2021, respectively, related to the ESOP, and $298 and $342 during the nine months ended September 30, 2022 and 2021, respectively.

Through September 30, 2022, and December 31, 2021, the Company had released and allocated 121,575 ESOP shares to participants, with a remainder of 118,425 ESOP shares in suspense at September 30, 2022, and December 31, 2021. Using the Company's quarter-end market price of $13.36 per share, the fair value of the unearned ESOP shares was $1,582 at September 30, 2022.

**12. Line of Credit**

Nodak Insurance has a $5,000 line of credit with Wells Fargo Bank, N.A. The terms of the line of credit include a floating interest rate of the bank's Prime Rate with a floor rate of 3.25%. There were no outstanding amounts during the nine months ended September 30, 2022, or the year ended December 31, 2021. This line of credit is scheduled to expire on May 31, 2023.

**13. Income Taxes**

At September 30, 2022, and December 31, 2021, 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 nine-month period ended September 30, 2022, or the year ended December 31, 2021.

At September 30, 2022, and December 31, 2021, the Company, other than Battle Creek and Westminster, had no income tax related carryforwards 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 net operating loss carryforwards of $3,215 at December 31, 2021. These net operating loss carryforwards began expiring in 2021 and will continue to expire through 2032.

Westminster had a $2,122 net operating loss carryforward at December 31, 2021. This net operating loss carryforward expires in 2023.

As of September 30, 2022, federal income tax years 2018 through 2020 remain open for examination.

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

## 14. Operating Leases

Primero leases a facility in Spearfish, South Dakota under a non-cancellable operating lease expiring in 2023 and leases a facility in Las Vegas, Nevada on a month-to-month basis. Direct Auto leases a facility in Chicago, Illinois under a non-cancellable operating lease expiring in 2029. Nodak Insurance leases a facility in Fargo, North Dakota under a non-cancellable operating lease expiring in 2024. There were expenses of $102 and $63 related to these leases during the three months ended September 30, 2022 and 2021, respectively, and $239 and $187 related to these leases during the nine months ended September 30, 2022 and 2021, respectively.

As of September 30, 2022, we have minimum future commitments under non-cancellable leases for the next five years and thereafter as follows:

| Year ending December 31, | Estimated Future Minimum Commitments |
|---|---|
| 2022 (three months remaining) | $ 96 |
| 2023 | 358 |
| 2024 | 320 |
| 2025 | 286 |
| 2026 | 291 |
| Thereafter | 775 |
| Total minimum future commitments | $ 2,126 |

## 15. 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.

## 16. Common Stock

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

| | Nine Months Ended September 30, 2022 | 2021 |
|---|---|---|
| Shares outstanding, beginning of period | 21,219,808 | 21,318,638 |
| Treasury shares repurchased through stock repurchase authorization | (173,419) | (168,393) |
| Issuance of treasury shares for vesting of restricted stock units | 101,292 | 102,060 |
| Shares outstanding, end of period | 21,147,681 | 21,252,305 |

The changes in the number of common shares outstanding excludes certain non-forfeitable stock award shares that are included in the weighted average common shares outstanding used in basic earnings per common share calculations. In addition, the net loss per diluted common share for the three- and nine-month periods ended September 30, 2022, excluded the weighted average effects of 176,037 and 207,424 shares of stock awards, respectively, since the impacts of these potential shares of common stock were anti-dilutive.

On May 4, 2020, our Board of Directors approved an authorization for the repurchase of up to approximately $10,000 of the Company’s outstanding common stock. During the year ended December 31, 2020, we completed the repurchase of 454,443 shares of our common stock for $7,238 under this authorization. During the nine months ended September 30, 2021, we completed the repurchase of 144,110 shares of our common stock for $2,762 to close out this authorization.

On August 11, 2021, our Board of Directors approved an authorization for the repurchase of up to approximately $5,000 of the Company’s outstanding common stock. During the year ended December 31, 2021, we completed the repurchase of 81,095 shares of our common stock for $1,554 under this authorization. During the three months ended September 30, 2022, we completed the repurchase of 62,175 shares of our common stock for $939. During the nine months ended September 30, 2022, we completed the repurchase of 173,419 shares of our common stock for $2,870.

**NI Holdings, Inc.**
**Notes to Consolidated Financial Statements (Unaudited)**
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On May 9, 2022, our Board of Directors approved an authorization for the repurchase of up to approximately $10,000 of the Company's outstanding common stock in addition to the $575 remaining from the August 11, 2021, repurchase authorization as of September 30, 2022. No shares were repurchased as part of the May 9, 2022, authorization during the nine months ended September 30, 2022.

The cost of this treasury stock is a reduction of shareholders' equity within our Unaudited Consolidated Balance Sheets.

## 17. Stock Based Compensation

At its 2020 Annual Shareholders' Meeting, the NI Holdings, Inc. 2020 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, independent contractors, 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 and to afford such persons an opportunity to acquire an ownership interest 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 may be issued under the Plan shall not exceed 1,000,000 shares, subject to adjustments as provided in the Plan. No eligible participant may be granted any awards for more than 100,000 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 $150 in any calendar year.

***Restricted Stock Units***

The Compensation Committee has 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 vest 20% per year over a five-year period, while RSUs granted to non-employee directors vest 100% on the date of the next annual meeting of shareholders following the grant date. 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.

The Company recognizes stock-based compensation costs for RSUs based on the grant date fair value. The compensation costs are normally expensed over the vesting periods to each vesting date; however, the cost of RSUs granted to executives are expensed immediately if the executive has met certain retirement criteria and the RSUs become non-forfeitable. Estimated forfeitures are included in the determination of compensation costs. No forfeitures are currently estimated.

A summary of the Company's outstanding and unearned RSUs is presented below:

| | RSUs | Weighted-Average Grant-Date Fair Value Per Share |
|---|---|---|
| Units outstanding and unearned at January 1, 2021 | 115,780 | $ 15.27 |
| RSUs granted during 2021 | 58,700 | 18.76 |
| RSUs earned during 2021 | (66,100) | 15.77 |
| Units outstanding and unearned at December 31, 2021 | 108,380 | 16.86 |
| | | |
| RSUs granted during 2022 | 59,600 | 17.61 |
| RSUs earned during 2022 | (52,620) | 17.39 |
| Units outstanding and unearned at September 30, 2022 | 115,360 | 17.00 |

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| RSU compensation expense | $ 227 | $ 226 | $ 725 | $ 843 |
| Income tax benefit | (52) | (47) | (165) | (177) |
| RSU compensation expense, net of income taxes | $ 175 | $ 179 | $ 560 | $ 666 |

At September 30, 2022, there was $1,043 of unrecognized compensation cost related to outstanding RSUs. That cost is expected to be recognized over a weighted-average period of 1.94 years.

***Performance Stock Units***

The Compensation Committee has 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 for PSUs based on the grant date fair value over the performance period of the awards. Estimated forfeitures are included in the determination of compensation costs. The current cost estimates represent the Company’s forecasted performance against cumulative growth targets.

A summary of the Company’s outstanding PSUs is presented below:

| | PSUs | Weighted-Average Grant-Date Fair Value Per Share |
|---|---|---|
| Units outstanding at January 1, 2021 | 174,600 | $ 15.15 |
| PSUs granted during 2021 (at target) | 64,600 | 18.64 |
| PSUs earned during 2021 | (70,363) | 16.25 |
| Performance adjustment [1] | 24,300 | 16.25 |
| Forfeitures | (2,537) | 16.25 |
| Units outstanding at December 31, 2021 | 190,600 | 16.06 |
| | | |
| PSUs granted during 2022 (at target) | 61,800 | 18.10 |
| PSUs earned during 2022 | (86,684) | 15.21 |
| Performance adjustment [1] | 31,200 | 15.21 |
| Forfeitures | (6,916) | 15.21 |
| Units outstanding at September 30, 2022 | 190,000 | 17.00 |

[1] Represents the change in PSUs issued based upon the attainment of performance goals established by the Company.

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| PSU compensation expense (benefit) | $ (872) | $ 290 | $ (349) | $ 861 |
| Income tax expense (benefit) | 198 | (61) | 79 | (181) |
| PSU compensation expense (benefit), net of income taxes | $ (674) | $ 229 | $ (270) | $ 680 |

The cost estimates for PSU grants represent initial target awards until the Company can reasonably forecast the financial performance of each PSU award grant. As of September 30, 2022, the compensation expense related to the PSU awards granted during 2020 was decreased due to the Company's expectation that the threshold performance objective will not be met. The PSU awards granted during 2021 and 2022 continue to represent the initial target awards. The actual number of shares to be issued at the end of each performance period will range from 0% to 150% of the initial target awards.

At September 30, 2022, there was $1,295 of unrecognized compensation cost related to outstanding PSUs. That cost is expected to be recognized over a weighted-average period of 2.07 years.

## 18. Segment Information

We have six reportable operating segments, which consist of private passenger auto insurance, non-standard auto insurance, home and farm insurance, crop insurance, commercial insurance, and all other (which primarily consists of assumed reinsurance and our excess liability business). We operate only in the U.S., 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 nine- month periods ended September 30, 2022 and 2021.

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 tables below. The remaining fee and other income amounts are not allocated to any segment.

We do not assign or allocate all line items in our Unaudited Consolidated Statement of Operations or Unaudited Consolidated Balance Sheet to our operating segments. Those line items include investment income, net investment gains (losses), other income excluding non-standard auto insurance fees, and income taxes within the Unaudited Consolidated Statement of Operations. For the Unaudited Consolidated Balance Sheet, those items include cash and investments, property and equipment, other assets, accrued expenses, income taxes recoverable or payable, and shareholders' equity.

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

| | Three Months Ended September 30, 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Private Passenger Auto | Non-Standard Auto | Home and Farm | Crop | Commercial | All Other | Total |
| Direct premiums earned | $ 20,523 | $ 17,646 | $ 22,429 | $ 20,921 | $ 19,342 | $ 1,312 | $ 102,173 |
| Assumed premiums earned | - | - | - | 1,768 | - | 692 | 2,460 |
| Ceded premiums earned | (710) | (67) | (2,678) | (8,123) | (3,458) | (65) | (15,101) |
| Net premiums earned | 19,813 | 17,579 | 19,751 | 14,566 | 15,884 | 1,939 | 89,532 |
| | | | | | | | |
| Direct losses and loss adjustment expenses | 20,969 | 11,958 | 34,051 | 12,040 | 14,646 | 782 | 94,446 |
| Assumed losses and loss adjustment expenses | - | - | - | 539 | - | 329 | 868 |
| Ceded losses and loss adjustment expenses | (615) | - | (5,229) | (5,605) | (4,834) | (114) | (16,397) |
| Net losses and loss adjustment expenses | 20,354 | 11,958 | 28,822 | 6,974 | 9,812 | 997 | 78,917 |
| | | | | | | | |
| Gross margin | (541) | 5,621 | (9,071) | 7,592 | 6,072 | 942 | 10,615 |
| | | | | | | | |
| Underwriting and general expenses | 5,061 | 6,399 | 5,396 | 343 | 5,840 | 462 | 23,501 |
| Underwriting gain (loss) | (5,602) | (778) | (14,467) | 7,249 | 232 | 480 | (12,886) |
| | | | | | | | |
| Fee and other income | | 246 | | | | | 476 |
| | | (532) | | | | | |
| Net investment income | | | | | | | 2,035 |
| Net investment losses | | | | | | | (2,868) |
| Loss before income taxes | | | | | | | (13,243) |
| Income tax benefit | | | | | | | (3,074) |
| Net loss | | | | | | | (10,169) |
| Net loss attributable to non-controlling interest | | | | | | | (184) |
| Net loss attributable to NI Holdings, Inc. | | | | | | | $ (9,985) |
| | | | | | | | |
| Operating Ratios: | | | | | | | |
| Loss and loss adjustment expense ratio | 102.7% | 68.0% | 145.9% | 47.9% | 61.8% | 51.4% | 88.1% |
| Expense ratio | 25.6% | 36.4% | 27.3% | 2.3% | 36.8% | 23.8% | 26.3% |
| Combined ratio | 128.3% | 104.4% | 173.2% | 50.2% | 98.6% | 75.2% | 114.4% |
| | | | | | | | |
| Balances at September 30, 2022: | | | | | | | |
| Premiums and agents' balances receivable | $ 21,252 | $ 17,754 | $ 9,461 | $ 42,395 | $ 11,343 | $ 765 | $ 102,970 |
| Deferred policy acquisition costs | 5,311 | 8,992 | 7,708 | 436 | 6,928 | 444 | 29,819 |
| Reinsurance recoverables on losses | 1,135 | - | 7,035 | 8,226 | 15,763 | 831 | 32,990 |
| Goodwill and other intangibles | - | 2,773 | - | - | 14,595 | - | 17,368 |
| Unpaid losses and loss adjustment expenses | 29,821 | 41,231 | 31,792 | 25,244 | 49,545 | 8,304 | 185,937 |
| Unearned premiums | 31,331 | 27,031 | 44,841 | 11,071 | 37,042 | 3,093 | 154,409 |
| Payable to Federal Crop Insurance Corporation | - | - | - | 4,700 | - | - | 4,700 |

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

| | Three Months Ended September 30, 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Private Passenger Auto | Non-Standard Auto | Home and Farm | Crop | Commercial | All Other | Total |
| Direct premiums earned | $ 19,453 | $ 15,258 | $ 21,256 | $ 19,654 | $ 16,864 | $ 1,255 | $ 93,740 |
| Assumed premiums earned | - | - | - | 24 | - | 1,312 | 1,336 |
| Ceded premiums earned | (962) | (369) | (2,481) | (6,954) | (2,066) | (71) | (12,903) |
| Net premiums earned | 18,491 | 14,889 | 18,775 | 12,724 | 14,798 | 2,496 | 82,173 |
| | | | | | | | |
| Direct losses and loss adjustment expenses | 17,646 | 9,620 | 19,839 | 27,237 | 13,058 | 53 | 87,453 |
| Assumed losses and loss adjustment expenses | - | - | - | 151 | - | 2,157 | 2,308 |
| Ceded losses and loss adjustment expenses | (516) | - | (3,684) | (14,906) | (5,288) | 375 | (24,019) |
| Net losses and loss adjustment expenses | 17,130 | 9,620 | 16,155 | 12,482 | 7,770 | 2,585 | 65,742 |
| | | | | | | | |
| Gross margin | 1,361 | 5,269 | 2,620 | 242 | 7,028 | (89) | 16,431 |
| | | | | | | | |
| Underwriting and general expenses | 5,892 | 6,010 | 6,627 | 864 | 5,257 | 698 | 25,348 |
| Underwriting gain (loss) | (4,531) | (741) | (4,007) | (622) | 1,771 | (787) | (8,917) |
| | | | | | | | |
| Fee and other income | | 301 | | | | | 501 |
| | | (440) | | | | | |
| Net investment income | | | | | | | 1,713 |
| Net investment gains | | | | | | | 222 |
| Loss before income taxes | | | | | | | (6,481) |
| Income tax benefit | | | | | | | (1,622) |
| Net loss | | | | | | | (4,859) |
| Net loss attributable to non-controlling interest | | | | | | | (122) |
| Net loss attributable to NI Holdings, Inc. | | | | | | | $ (4,737) |
| | | | | | | | |
| Operating Ratios: | | | | | | | |
| Loss and loss adjustment expense ratio | 92.6% | 64.6% | 86.0% | 98.1% | 52.5% | 103.6% | 80.0% |
| Expense ratio | 31.9% | 40.4% | 35.3% | 6.8% | 35.5% | 27.9% | 30.8% |
| Combined ratio | 124.5% | 105.0% | 121.3% | 104.9% | 88.0% | 131.5% | 110.8% |
| | | | | | | | |
| Balances at September 30, 2021: | | | | | | | |
| Premiums and agents' balances receivable | $ 19,531 | $ 8,789 | $ 9,246 | $ 33,376 | $ 10,737 | $ 709 | $ 82,388 |
| Deferred policy acquisition costs | 5,234 | 6,226 | 7,539 | 1 | 6,027 | 449 | 25,476 |
| Reinsurance recoverables on losses | 1,422 | - | 2,680 | 28,824 | 7,911 | 1,841 | 42,678 |
| Receivable from Federal Crop Insurance Corporation | - | - | - | 9,362 | - | - | 9,362 |
| Goodwill and other intangibles | - | 2,823 | - | - | 15,017 | - | 17,840 |
| Unpaid losses and loss adjustment expenses | 26,073 | 44,114 | 17,443 | 50,393 | 30,547 | 11,006 | 179,576 |
| Unearned premiums | 29,462 | 19,489 | 42,664 | 9,369 | 32,930 | 3,185 | 137,099 |

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

| | Nine Months Ended September 30, 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Private Passenger Auto | Non-Standard Auto | Home and Farm | Crop | Commercial | All Other | Total |
| Direct premiums earned | $ 59,648 | $ 47,665 | $ 65,312 | $ 38,612 | $ 54,733 | $ 3,853 | $ 269,823 |
| Assumed premiums earned | - | - | - | 2,259 | - | 3,753 | 6,012 |
| Ceded premiums earned | (1,830) | (196) | (6,393) | (14,023) | (9,630) | (148) | (32,220) |
| Net premiums earned | 57,818 | 47,469 | 58,919 | 26,848 | 45,103 | 7,458 | 243,615 |
| | | | | | | | |
| Direct losses and loss adjustment expenses | 52,360 | 24,582 | 103,430 | 25,173 | 42,791 | 2,275 | 250,611 |
| Assumed losses and loss adjustment expenses | - | - | - | 781 | - | 1,632 | 2,413 |
| Ceded losses and loss adjustment expenses | (442) | - | (5,938) | (8,819) | (9,970) | (214) | (25,383) |
| Net losses and loss adjustment expenses | 51,918 | 24,582 | 97,492 | 17,135 | 32,821 | 3,693 | 227,641 |
| | | | | | | | |
| Gross margin | 5,900 | 22,887 | (38,573) | 9,713 | 12,282 | 3,765 | 15,974 |
| | | | | | | | |
| Underwriting and general expenses | 16,382 | 19,357 | 17,425 | 1,400 | 16,752 | 1,835 | 73,151 |
| Underwriting gain (loss) | (10,482) | 3,530 | (55,998) | 8,313 | (4,470) | 1,930 | (57,177) |
| | | | | | | | |
| Fee and other income | | 888 | | | | | 1,319 |
| | | 4,418 | | | | | |
| Net investment income | | | | | | | 5,703 |
| Net investment losses | | | | | | | (19,532) |
| Loss before income taxes | | | | | | | (69,687) |
| Income tax benefit | | | | | | | (14,921) |
| Net loss | | | | | | | (54,766) |
| Net loss attributable to non-controlling interest | | | | | | | (780) |
| Net loss attributable to NI Holdings, Inc. | | | | | | | $ (53,986) |
| | | | | | | | |
| Operating Ratios: | | | | | | | |
| Loss and loss adjustment expense ratio | 89.8% | 51.8% | 165.5% | 63.8% | 72.8% | 49.5% | 93.5% |
| Expense ratio | 28.3% | 40.8% | 29.6% | 5.2% | 37.1% | 24.6% | 30.0% |
| Combined ratio | 118.1% | 92.6% | 195.1% | 69.0% | 109.9% | 74.1% | 123.5% |

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

| | Nine Months Ended September 30, 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Private Passenger Auto** | **Non-Standard Auto** | **Home and Farm** | **Crop** | **Commercial** | **All Other** | **Total** |
| Direct premiums earned | $ 57,153 | $ 44,102 | $ 62,647 | $ 34,212 | $ 47,781 | $ 3,647 | $ 249,542 |
| Assumed premiums earned | - | - | - | 2,108 | - | 4,192 | 6,300 |
| Ceded premiums earned | (3,096) | (1,057) | (8,045) | (15,196) | (6,625) | (234) | (34,253) |
| Net premiums earned | 54,057 | 43,045 | 54,602 | 21,124 | 41,156 | 7,605 | 221,589 |
| | | | | | | | |
| Direct losses and loss adjustment expenses | 45,299 | 25,910 | 47,163 | 49,612 | 33,016 | 630 | 201,630 |
| Assumed losses and loss adjustment expenses | - | - | - | 674 | - | 4,542 | 5,216 |
| Ceded losses and loss adjustment expenses | (1,010) | - | (5,168) | (27,911) | (7,583) | 375 | (41,297) |
| Net losses and loss adjustment expenses | 44,289 | 25,910 | 41,995 | 22,375 | 25,433 | 5,547 | 165,549 |
| | | | | | | | |
| Gross margin | 9,768 | 17,135 | 12,607 | (1,251) | 15,723 | 2,058 | 56,040 |
| | | | | | | | |
| Underwriting and general expenses | 16,018 | 16,949 | 17,311 | 2,831 | 15,049 | 2,017 | 70,175 |
| Underwriting gain (loss) | (6,250) | 186 | (4,704) | (4,082) | 674 | 41 | (14,135) |
| | | | | | | | |
| Fee and other income | | 994 | | | | | 1,338 |
| | | 1,180 | | | | | |
| Net investment income | | | | | | | 4,959 |
| Net investment gains | | | | | | | 10,734 |
| Income before income taxes | | | | | | | 2,896 |
| Income tax expense | | | | | | | 707 |
| Net income | | | | | | | 2,189 |
| Net loss attributable to non-controlling interest | | | | | | | (99) |
| Net income attributable to NI Holdings, Inc. | | | | | | | $ 2,288 |
| | | | | | | | |
| Operating Ratios: | | | | | | | |
| Loss and loss adjustment expense ratio | 81.9% | 60.2% | 76.9% | 105.9% | 61.8% | 72.9% | 74.7% |
| Expense ratio | 29.6% | 39.4% | 31.7% | 13.4% | 36.6% | 26.5% | 31.7% |
| Combined ratio | 111.5% | 99.6% | 108.6% | 119.3% | 98.4% | 99.4% | 106.4% |



**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 on Form 10-Q. You should also review Part I, Item 1A, "Risk Factors" included in the Company's 2021 Annual Report for a discussion of important factors, including COVID-19 or a future pandemic, and changing climate conditions, 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.

**Results of Operations**

The consolidated net loss for the Company was $10,169 for the three months ended September 30, 2022, compared to net loss of $4,859 for the three months ended September 30, 2021. The consolidated net loss for the Company was $54,766 for the nine months ended September 30, 2022, compared to net income of $2,189 for the nine months ended September 30, 2021.

The major components of the Company's revenues and net income (loss) were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |

| | | | | |
|---|---|---|---|---|
| Revenues: | | | | |
| Net premiums earned | $ 89,532 | $ 82,173 | $ 243,615 | $ 221,589 |
| Fee and other income | 476 | 501 | 1,319 | 1,338 |
| Net investment income | 2,035 | 1,713 | 5,703 | 4,959 |
| Net investment gains (losses) | (2,868) | 222 | (19,532) | 10,734 |
| Total revenues | 89,175 | 84,609 | 231,105 | 238,620 |
| | | | | |
| Components of net income (loss): | | | | |
| Net premiums earned | 89,532 | 82,173 | 243,615 | 221,589 |
| Losses and loss adjustment expenses | 78,917 | 65,742 | 227,641 | 165,549 |
| Amortization of deferred policy acquisition costs and other underwriting and general expenses | 23,501 | 25,348 | 73,151 | 70,175 |
| Underwriting loss | (12,886) | (8,917) | (57,177) | (14,135) |
| | | | | |
| Fee and other income | 476 | 501 | 1,319 | 1,338 |
| Net investment income | 2,035 | 1,713 | 5,703 | 4,959 |
| Net investment gains (losses) | (2,868) | 222 | (19,532) | 10,734 |
| Income (loss) before income taxes | (13,243) | (6,481) | (69,687) | 2,896 |
| Income tax expense (benefit) | (3,074) | (1,622) | (14,921) | 707 |
| Net income (loss) | $ (10,169) | $ (4,859) | $ (54,766) | $ 2,189 |

*Net Premiums Earned*

| | Three Months Ended September 30, 2022 | Three Months Ended September 30, 2021 | Nine Months Ended September 30, 2022 | Nine Months Ended September 30, 2021 |
|---|---|---|---|---|
| Net premiums earned: | | | | |
| Direct premium | $ 102,173 | $ 93,740 | $ 269,823 | $ 249,542 |
| Assumed premium | 2,460 | 1,336 | 6,012 | 6,300 |
| Ceded premium | (15,101) | (12,903) | (32,220) | (34,253) |
| Total net premiums earned | $ 89,532 | $ 82,173 | $ 243,615 | $ 221,589 |

The Company's net premiums earned for the three months ended September 30, 2022, increased $7,359, or 9.0%, compared to the three months ended September 30, 2021. Net premiums earned for the nine months ended September 30, 2022, increased $22,026, or 9.9%, compared to the nine months ended September 30, 2021.

| | Three Months Ended September 30, 2022 | Three Months Ended September 30, 2021 | Nine Months Ended September 30, 2022 | Nine Months Ended September 30, 2021 |
|---|---|---|---|---|
| Net premiums earned: | | | | |
| Private passenger auto | $ 19,813 | $ 18,491 | $ 57,818 | $ 54,057 |
| Non-standard auto | 17,579 | 14,889 | 47,469 | 43,045 |
| Home and farm | 19,751 | 18,775 | 58,919 | 54,602 |
| Crop | 14,566 | 12,724 | 26,848 | 21,124 |
| Commercial | 15,884 | 14,798 | 45,103 | 41,156 |
| All other | 1,939 | 2,496 | 7,458 | 7,605 |
| Total net premiums earned | $ 89,532 | $ 82,173 | $ 243,615 | $ 221,589 |

Below are comments regarding net premiums earned by business segment:

**Private passenger auto –** Net premiums earned for the three months ended September 30, 2022, increased $1,322, or 7.1%, compared to the same period in 2021. Net premiums earned for the nine months ended September 30, 2022, increased $3,761, or 7.0%, compared to the same period in 2021. Results were driven by continued new business growth and rate increases in South Dakota and Nebraska.

**Non-standard auto –** Net premiums earned for the three months ended September 30, 2022, increased $2,690, or 18.1%, compared to the same period in 2021. Net premiums earned for the nine months ended September 30, 2022, increased $4,424, or 10.3%, compared to the same period in 2021. Results were driven by new business growth, increased retention, and rate increases in the Chicago market where our non-standard auto business is concentrated.

**Home and farm –** Net premiums earned for the three months ended September 30, 2022, increased $976, or 5.2%, compared to the same period in 2021. Net premiums earned for the nine months ended September 30, 2022, increased $4,317, or 7.9%, compared to the same period in 2021. Results were driven by increasing insured property values as a result of using higher inflationary factors in the underwriting of home and farm risks.

**Crop –** Net premiums earned for the three months ended September 30, 2022, increased $1,842, or 14.5%, compared to the same period in 2021. Net premiums earned for the nine months ended September 30, 2022, increased $5,724, or 27.1%, compared to the same period in 2021. Results were driven by the impact of higher commodity prices on our multi-peril crop insurance direct written premiums. In addition, earned premiums increased as a result of ceding significantly less multi-peril crop insurance business into the Assigned Risk fund in 2022 compared to the prior year.

**Commercial –** Net premiums earned for the three months ended September 30, 2022, increased $1,086, or 7.3%, compared to the same period in 2021. Net premiums earned for the nine months ended September 30, 2022, increased $3,947, or 9.6%, compared to the same period in 2021. Results were driven by increasing insured values as a result of using higher inflationary factors as well as continued increases in both price and new business premiums.

**All other –** Net premiums earned for the three months ended September 30, 2022, decreased $557, or 22.3%, compared to the same period in 2021. Net premiums earned for the nine months ended September 30, 2022, decreased $147, or 1.9%, compared to the same period in 2021. Results were driven by the Company's decision to non-renew its participation in an assumed domestic and international reinsurance pool of business as of January 1, 2022.

*Losses and Loss Adjustment Expenses*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Net losses and loss adjustment expenses: | | | | |
| Direct losses and loss adjustment expenses | $ 94,446 | $ 87,453 | $ 250,611 | $ 201,630 |
| Assumed losses and loss adjustment expenses | 868 | 2,308 | 2,413 | 5,216 |
| Ceded losses and loss adjustment expenses | (16,397) | (24,019) | (25,383) | (41,297) |
| Total net losses and loss adjustment expenses | $ 78,917 | $ 65,742 | $ 227,641 | $ 165,549 |

The Company's net losses and loss adjustment expenses for the three months ended September 30, 2022, increased $13,175 or 20.0%, compared to the three months ended September 30, 2021. The Company's net losses and loss adjustment expenses for the nine months ended September 30, 2022, increased $62,092, or 37.5%, compared to the nine months ended September 30, 2021.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Net losses and loss adjustment expenses: | | | | |
| Private passenger auto | $ 20,354 | $ 17,130 | $ 51,918 | $ 44,289 |
| Non-standard auto | 11,958 | 9,620 | 24,582 | 25,910 |
| Home and farm | 28,822 | 16,155 | 97,492 | 41,995 |
| Crop | 6,974 | 12,482 | 17,135 | 22,375 |
| Commercial | 9,812 | 7,770 | 32,821 | 25,433 |
| All other | 997 | 2,585 | 3,693 | 5,547 |
| Total net losses and loss adjustment expenses | $ 78,917 | $ 65,742 | $ 227,641 | $ 165,549 |

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Loss and loss adjustment expenses ratio: | | | | |
| Private passenger auto | 102.7% | 92.6% | 89.8% | 81.9% |
| Non-standard auto | 68.0% | 64.6% | 51.8% | 60.2% |
| Home and farm | 145.9% | 86.0% | 165.5% | 76.9% |
| Crop | 47.9% | 98.1% | 63.8% | 105.9% |
| Commercial | 61.8% | 52.5% | 72.8% | 61.8% |
| All other | 51.4% | 103.6% | 49.5% | 72.9% |
| Total loss and loss adjustment expenses ratio | 88.1% | 80.0% | 93.5% | 74.7% |

Below are comments regarding significant changes in the net losses and loss adjustment expenses, and the net loss and loss adjustment expense ratios, by business segment:

**Private passenger auto –** The net loss and loss adjustment expense ratio increased 10.1 percentage points and 7.9 percentage points in the three- and nine-month periods ended September 30, 2022, compared to the same periods in 2021. These increases were driven by elevated loss costs due to continued high levels of inflation and increased weather-related comprehensive losses in Nebraska and South Dakota. We are addressing this increased frequency and severity through recent aggressive underwriting actions and rate increases.

**Non-standard auto –** The net loss and loss adjustment expense ratio increased 3.4 percentage points in the three-month period ended September 30, 2022, compared to the same period in 2021. This increase was driven by elevated loss costs due to continued high levels of inflation. The net loss and loss adjustment expense ratio decreased 8.4 percentage points in the nine-month period ended September 30, 2022, compared to the same period for 2021 due to successful implementation of various strategic initiatives as well as rate increases taken in early 2022.

**Home and farm –** The net loss and loss adjustment expense ratio increased 59.9 percentage points and 88.6 percentage points in the three- and nine-month periods ended September 30, 2022, compared to the same periods in 2021. These increases were driven by catastrophe losses in Nebraska and South Dakota that occurred during second quarter of 2022 as well as a catastrophe that occurred during the third quarter of 2022 in North Dakota. The losses from the catastrophe events that occurred during second quarter continued to adversely develop with additional losses being reported during the third quarter. Catastrophe losses, net of reinsurance, for the Home and Farm segment accounted for 73.6 percentage points of the net loss and loss adjustment expense ratio for the three months ended September 30, 2022, and did not have a negative impact for the same period in 2021. Catastrophe losses, net of reinsurance, for the Home and Farm segment accounted for 96.3 percentage points of the net loss and loss adjustment expense ratio for the nine months ended September 30, 2022, compared to 13.5 percentage points for the same period for 2021.

**Crop –** The net loss and loss adjustment expense ratio decreased 50.2 percentage points and 42.1 percentage points in the three- and nine-month periods ended September 30, 2022, compared to the same periods in 2021. This improvement was due to more favorable crop growing conditions in 2022 in comparison to the extreme drought conditions faced in 2021.

**Commercial –** The net loss and loss adjustment expense ratio increased 9.3 percentage points and 11.0 percentage points in the three- and nine-month periods ended September 30, 2022, compared to the same periods in 2021. These increases were driven by increased frequency and severity of fire losses in the Westminster book of business during second quarter of 2022, which continued into the third quarter. Our North Dakota commercial business experienced elevated weather-related losses which also contributed to these loss ratio increases.

**All other –** The net loss and loss adjustment expense ratio decreased 52.2 percentage points and 23.4 percentage points in the three- and nine-month periods ended September 30, 2022, compared to the same periods for 2021. The decreases were driven by the Company's decision to non-renew its participation in an assumed domestic and international reinsurance pool of business as of January 1, 2022. The year-to-date loss and loss adjustment expense ratio was also impacted by favorable prior year development in our assumed domestic and international reinsurance pool of business.

*Expense Ratio*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Underwriting and general expenses: | | | | |
| Amortization of deferred policy acquisition costs | $ 17,589 | $ 12,898 | $ 49,456 | $ 46,371 |
| Other underwriting and general expenses | 5,912 | 12,450 | 23,695 | 23,804 |
| Total underwriting and general expenses | $ 23,501 | $ 25,348 | $ 73,151 | $ 70,175 |
| | | | | |
| Expense ratio | 26.3% | 30.8% | 30.0% | 31.7% |

The expense ratio is calculated by dividing other underwriting and general expenses and amortization of deferred policy acquisition costs by net premiums earned. The expense ratio measures a company's operational efficiency in producing, underwriting, and administering its insurance business. The overall expense ratio decreased 4.5 percentage points in the three-month period ended September 30, 2022, compared to the same period in 2021. The Company refined its methodology for calculating deferred policy acquisition costs and the related amortization during the third quarter of 2021, which contributed to this decrease and the year-over-year changes in deferred policy acquisition costs and other underwriting and general expenses. The overall expense ratio decreased 1.7 percentage points in the nine-month period ended September 30, 2022, compared to the same period in 2021. The decreases for the three- and nine-month periods ended September 30, 2022, compared to the same periods in 2021, were driven by the impact of the significantly higher multi-peril crop insurance net premiums earned during 2022 in our crop segment, which operates at a significantly lower expense ratio relative to our other segments.

*Underwriting Gain (Loss) and Combined Ratio*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Underwriting gain (loss): | | | | |
| Private passenger auto | $ (5,602) | $ (4,531) | $ (10,482) | $ (6,250) |
| Non-standard auto | (778) | (741) | 3,530 | 186 |
| Home and farm | (14,467) | (4,007) | (55,998) | (4,704) |
| Crop | 7,249 | (622) | 8,313 | (4,082) |
| Commercial | 232 | 1,771 | (4,470) | 674 |
| All other | 480 | (787) | 1,930 | 41 |
| Total underwriting gain (loss) | $ (12,886) | $ (8,917) | $ (57,177) | $ (14,135) |

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Combined ratio: | | | | |
| Private passenger auto | 128.3% | 124.5% | 118.1% | 111.5% |
| Non-standard auto | 104.4% | 105.0% | 92.6% | 99.6% |
| Home and farm | 173.2% | 121.3% | 195.1% | 108.6% |
| Crop | 50.2% | 104.9% | 69.0% | 119.3% |
| Commercial | 98.6% | 88.0% | 109.9% | 98.4% |
| All other | 75.2% | 131.5% | 74.1% | 99.4% |
| Combined ratio | 114.4% | 110.8% | 123.5% | 106.4% |

Underwriting gain (loss) measures the pre-tax profitability of our insurance operations. It is derived by subtracting losses and loss adjustment expenses, amortization of deferred policy acquisition costs, and other underwriting and general expenses from net premiums earned. The combined ratio represents the sum of these losses and expenses as a percentage of net premiums earned, and measures our overall underwriting profit.

The total underwriting loss increased $3,969 or 44.5%, for the three-month period ended September 30, 2022, compared to the same period in 2021. The total underwriting loss increased $43,042, or 304.5%, for the nine-month period ended September 30, 2022, compared to the same period in 2021. These results were driven by the factors discussed in the Loss and Loss Adjustment Expenses section above.

The overall combined ratio increased 3.6 percentage points in the three-month period ended September 30, 2022, compared to the same period in 2021. The overall combined ratio increased 17.1 percentage points in the nine-month period ended September 30, 2022, compared to the same period in 2021. These results were driven by the factors discussed in the Loss and Loss Adjustment Expenses section above.

*Fee and Other Income*

The Company had fee and other income of $476 for the three months ended September 30, 2022, compared to $501 for the three months ended September 30, 2021. Fee income attributable to the non-standard auto segment is a key component in measuring its profitability. Fee income on this business decreased to $246 for the three months ended September 30, 2022, from $301 for the three months ended September 30, 2021, due to a reduction in policies that generate fee income.

The Company had fee and other income of $1,319 for the nine months ended September 30, 2022, compared to $1,338 for the nine months ended September 30, 2021. Fee income on the non-standard auto business decreased slightly to $888 for the nine months ended September 30, 2022, from $994 for the nine months ended September 30, 2021, due to a reduction in policies that generate fee income.

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*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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| Average cash and invested assets | $ 436,714 | $ 503,538 | $ 468,026 | $ 499,226 |
| Net investment income | $ 2,035 | $ 1,713 | $ 5,703 | $ 4,959 |
| | | | | |
| Gross return on average cash and invested assets | 2.6% | 2.0% | 2.4% | 2.0% |
| Net return on average cash and invested assets | 1.9% | 1.4% | 1.6% | 1.3% |

Net investment income increased $322 for the three months ended September 30, 2022, compared to the three months ended September 30, 2021. Net investment income increased $744 for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021. These increases were primarily driven by an increase in the fixed income portfolio average book value (measured at cost or amortized cost), the rising interest rate environment, as well as a higher allocation of invested assets to private placement securities and high dividend yield equities.

The Company's net return on average cash and invested assets increased year-over-year, driven by a decrease in average cash and invested assets (measured at fair value) as a result of unfavorable market conditions for both fixed income and equity securities as well as higher net investment income.

*Net Investment Gains (Losses)*

Net investment gains (losses) consisted of the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| Gross realized gains | $ 1,286 | $ 2,805 | $ 3,606 | $ 9,766 |
| Gross realized losses, excluding other-than-temporary impairment losses | (1,203) | (72) | (1,558) | (256) |
| Net realized gains | 83 | 2,733 | 2,048 | 9,510 |
| Change in net unrealized gains on equity securities | (2,951) | (2,511) | (21,580) | 1,224 |
| Net investment gains (losses) | $ (2,868) | $ 222 | $ (19,532) | $ 10,734 |

The Company had net realized gains of $83 and $2,048 for the three and nine months ended September 30, 2022, compared to gains of $2,733 and $9,510 for the three and nine months ended September 30, 2021. The Company reported no other-than-temporary losses during any of the periods presented.

The Company experienced a decrease in net unrealized gains on equity securities of $2,951 and $21,580 during the three and nine months ended September 30, 2022, respectively, driven by changes in fair value attributable to unfavorable equity markets. The Company experienced a decrease of $2,511 and an increase of $1,224 in net unrealized gains on equity securities during the three and nine months ended September 30, 2021, driven by changes in fair value attributable to volatile equity markets. In addition to the impact of the overall equity markets, the Company's sales activity (and resulting gains and losses) will impact the level and direction of the change in the net unrealized gain or loss of its equity securities portfolio. During the three and nine months ended September 30, 2022, the Company had net realized gains on its equity securities of $122 and $2,149, respectively, compared to net realized gains of $2,614 and $8,964 during the three and nine months ended September 30, 2021.

The Company's fixed income 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. The fixed income portion of the portfolio experienced net unrealized losses of $12,727 and $49,946 during the three and nine months ended September 30, 2022, respectively, compared to net unrealized losses of $2,121 and $6,443 during the three and nine months ended September 30, 2021. The changes were primarily the result of changes in U.S. interest rates. The change in the fair value of fixed income securities is not reflected in net income; rather it is reflected as a separate component (net of income taxes) of other comprehensive income.

*Income (Loss) before Income Taxes*

For the three months ended September 30, 2022, the Company had a pre-tax loss of $13,243 compared to a pre-tax loss of $6,481 for the three months ended September 30, 2021. The increase in pre-tax loss was largely attributable to loss development on the significant catastrophe losses in Nebraska and South Dakota that occurred during the second quarter, losses related to a catastrophe in North Dakota that occurred in the third quarter, and the change in net investment gains/losses attributable to the impact of equity markets on the Company's equity securities portfolio.

For the nine months ended September 30, 2022, the Company had a pre-tax loss of $69,687 compared to pre-tax income of $2,896 for the nine months ended September 30, 2021. The decrease in pre-tax income was largely attributable to the significant catastrophe losses in Nebraska, South Dakota, and North Dakota, along with the change in net investment gains/losses attributable to the impact of equity markets on the Company's equity securities portfolio.

*Income Tax Expense (Benefit)*

The Company recorded an income tax benefit of $3,074 for the three months ended September 30, 2022, compared to an income tax benefit of $1,622 for the three months ended September 30, 2021. Our effective tax rate for the third quarter of 2022 was 23.2% compared to an effective tax rate of 25.0% for the third quarter of 2021.

The Company recorded an income tax benefit of $14,921 for the nine months ended September 30, 2022, compared to income tax expense of $707 for the nine months ended September 30, 2021. Our effective tax rate for the first nine months of 2022 was 21.4% compared to an effective tax rate of 24.4% for the first nine months of 2021.

A portion of the effective tax rate is attributable to Illinois state income taxes.

*Net Income (Loss)*

For the three months ended September 30, 2022, the Company had a net loss before non-controlling interest of $10,169 compared to net loss of $4,859 for the three months ended September 30, 2021. The decrease was largely attributable to the significant catastrophe losses in Nebraska, South Dakota, and North Dakota, along with the change in net investment gains/losses attributable to the impact of equity markets on the Company's equity securities portfolio.

For the nine months ended September 30, 2022, the Company had a net loss before non-controlling interest of $54,766 compared to net income of $2,189 for the nine months ended September 30, 2021. The decrease was largely attributable to the significant catastrophe losses in Nebraska, South Dakota, and North Dakota, along with the change in net investment gains/losses attributable to the impact of equity markets on the Company's equity securities portfolio.

*Return on Average Equity*

For the three months ended September 30, 2022, the Company had annualized return on average equity, after non-controlling interest, of (15.4)% compared to annualized return on average equity, after non-controlling interest, of (5.5)% for the three months ended September 30, 2021.

For the nine months ended September 30, 2022, the Company had annualized return on average equity, after non-controlling interest, of (24.3)% compared to annualized return on average equity, after non-controlling interest, of 0.9% for the nine months ended September 30, 2021.

Average equity is calculated as the average between beginning and ending shareholders' equity, excluding non-controlling interest for the period.

**Critical Accounting Policies**

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. The Company is required to make estimates and assumptions in certain circumstances that affect amounts reported in the Unaudited Consolidated Financial Statements and related footnotes. We evaluate these estimates and assumptions on an ongoing basis based on historical developments, market conditions, industry trends, and other information that we believe to be reasonable under the circumstances. There can be no assurance that actual results will conform to these estimates and assumptions or that reported results of operations will not be materially and adversely affected by the need to make accounting adjustments to reflect changes in these estimates and assumptions from time to time. Our critical accounting policies are more fully described in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" presented in our 2021 Annual Report. There have been no changes in our critical accounting policies from December 31, 2021.

**Liquidity and Capital Resources**

The Company 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 IPO, which we planned to use for strategic acquisitions.

In 2018, we used $17,000 for the acquisition of Direct Auto, which was paid in cash at closing. On January 1, 2020, we acquired Westminster for $40,000. We paid $20,000 at the time of closing. The terms of the acquisition agreement included payment of the remaining $20,000, subject to certain adjustments, in three equal installments on each of the first and second anniversaries of the closing, and on the first business day of the month preceding the third anniversary of the closing. The first two installments were paid in January 2021 and January 2022. The Company anticipates using the net proceeds from the IPO to satisfy the remaining obligation in December 2022.

We currently anticipate that cash generated from our operations and available from our investment portfolio, along with the remaining IPO net proceeds, will be sufficient to fund our operations for the foreseeable future.

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 nine months ended September 30, 2022 and 2021, were as follows:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2022 | 2021 |
| Net cash flows from operating activities | $ (24,680) | $ 9,489 |
| Net cash flows from investing activities | 18,639 | (52,471) |
| Net cash flows from financing activities | (10,305) | (10,366) |
| Net decrease in cash and cash equivalents | $ (16,346) | $ (53,348) |

For the nine months ended September 30, 2022, net cash used by operating activities totaled $24,680 compared to net cash provided by operating activities of $9,489 a year ago. This decrease was primarily driven by higher claim payments related to catastrophe losses during the current year and higher levels of premiums and agents' balances receivable and federal income tax recoverable.

For the nine months ended September 30, 2022, net cash provided by investing activities totaled $18,639 compared to net cash used by investing activities of $52,471 a year ago. This decrease in cash used was attributable to the significant catastrophe losses in Nebraska and South Dakota during the current quarter, which resulted in more sales of securities to pay losses and less available cash for investment purchases. The decrease was also attributable to the Company investing a higher level of excess cash during the first quarter of 2021.

For the nine months ended September 30, 2022, net cash used by financing activities totaled $10,305 compared to $10,366 a year ago. This decrease was primarily attributable to the Company repurchasing shares of its own common stock for $2,870 during the first nine months of 2022, compared to $3,211 during the first nine months of 2021.

As a standalone entity, and outside of the net proceeds from the IPO, the Company's principal source of long-term liquidity will be dividend payments from its directly-owned subsidiaries.

Nodak Insurance is 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 to us during 2022 without the prior approval of the North Dakota Insurance Department is approximately $21,493 based upon the surplus of Nodak Insurance at December 31, 2021. Prior to its payment of any 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 nine months ended September 30, 2022, or the year ended December 31, 2021.

Direct Auto re-domesticated from Illinois to North Dakota during 2021, and is now subject to the same dividend restrictions as Nodak Insurance. The amount available for payment of dividends from Direct Auto to us during 2022 without the prior approval of the North Dakota Insurance Department is approximately $3,796 based upon the surplus of Direct Auto at December 31, 2021. No dividends were declared or paid by Direct Auto during the nine months ended September 30, 2022, or the year ended December 31, 2021.

Westminster re-domesticated from Maryland to North Dakota during 2021, and is now subject to the same dividend restrictions as Nodak Insurance. The amount available for payment of dividends from Westminster to us during 2022 without the prior approval of the North Dakota Insurance Department is approximately $2,471 based upon the surplus of Westminster at December 31, 2021. No dividends were declared or paid by Westminster during the nine months ended September 30, 2022, or the year ended December 31, 2021.

**Recent Accounting Pronouncements**

For a discussion of recent accounting pronouncements, see Part I, Item 1, Note 2, "Basis of Presentation and Accounting Policies--Recent Accounting Pronouncements" in this Quarterly Report on Form 10-Q.

**Item 3. - Quantitative and Qualitative Disclosures about Market Risk**

The Company’s assessment of market risk as of September 30, 2022, indicates there have been no material changes in the quantitative and qualitative disclosures from those in Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” in our 2021 Annual Report 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-15(b)) as of September 30, 2022. 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.

**Changes in Internal Controls**

In the ordinary course of business, we periodically review our system of internal control over financial reporting to identify opportunities to improve our controls and increase efficiency, while ensuring that we maintain an effective internal control environment. In addition, when we acquire new businesses, we incorporate our controls and procedures into the acquired business as part of our integration activities. Since 2018, we have invested significant resources to comprehensively document and analyze our system of internal control over financial reporting. We have identified areas requiring improvement, and continue to make selected improvements to processes and controls to address issues identified through this review. These improvements may include such activities as implementing new, more efficient systems, automating manual processes, formalizing policies and procedures, increasing monitoring controls, and updating existing systems. We plan to continue this initiative as well as prepare for the first audit of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002 for the annual period ending December 31, 2022, which may result in changes to our internal control over financial reporting.

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 September 30, 2022, 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 Part I, Item 1A, “Risk Factors” in our 2021 Annual Report.

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

All dollar amounts included in Item 2 herein, except per share amounts, are in thousands.

The Company has not sold any unregistered securities within the past three years.

On January 17, 2017, our registration statement on Form S-1 registering our common stock was declared effective by the SEC. On March 13, 2017, the Company completed the IPO 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 IPO.

Direct Auto was acquired on August 31, 2018, with $17,000 of the net proceeds from the IPO.

On January 1, 2020, we acquired Westminster for $40,000. We paid $20,000 at the time of closing. The terms of the acquisition agreement included payment of the remaining $20,000, subject to certain adjustments, in three equal installments on each of the first and second anniversaries of the closing, and on the first business day of the month preceding the third anniversary of the closing. The first two installments were paid in January 2021 and January 2022. The Company anticipates using the net proceeds from the IPO to satisfy the remaining obligation in December 2022.

From time to time, the Company may also repurchase its own stock. These repurchases may be used to satisfy its obligations under the equity incentive plans or may be done for other reasons. To date, the Company has used the net proceeds from the IPO to fund these buyback programs.

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

On May 4, 2020, our Board of Directors approved an authorization for the repurchase of up to approximately $10,000 of the Company's outstanding common stock. During the year ended December 31, 2020, we completed the repurchase of 454,443 shares of our common stock for $7,238 under this authorization. During the nine months ended September 30, 2021, we repurchased an additional 144,110 shares of our common stock for $2,762 to close out this authorization.

On August 11, 2021, our Board of Directors approved an additional authorization for the repurchase of up to approximately $5,000 of the Company's outstanding common stock. During the year ended December 31, 2021, we completed the repurchase of 81,095 shares of our common stock for $1,554 under this authorization. During the nine months ended September 30, 2022, we completed the repurchase of 173,419 shares of our common stock for $2,870 under this authorization. At September 30, 2022, $575 remains outstanding under this authorization.

On May 9, 2022, our Board of Directors approved an additional authorization for the repurchase of up to approximately $10,000 of the Company's outstanding common stock.

Share repurchase activity during the three months ended September 30, 2022, is presented below:

| Period in 2022 | 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 Plans or Programs (2) (in thousands) |
|---|---|---|---|---|
| July 1-31, 2022 | 30,803 | $ 16.66 | 30,803 | $ 11,001 |
| August 1-31, 2022 | 12,274 | 14.40 | 12,274 | 10,824 |
| September 1-30, 2022 | 19,098 | 13.05 | 19,098 | 10,575 |
| Total | 62,175 | $ 15.11 | 62,175 | $ 10,575 |

(1) Shares purchased pursuant to the August 11, 2021 publicly announced share repurchase authorization of up to approximately $5,000 of the Company's outstanding common stock.

(2) Maximum dollar value of shares that may yet be purchased consist of up to approximately $575 under the August 11, 2021, publicly announced repurchase authorization and up to approximately $10,000 under the May 9, 2022, publicly announced share repurchase authorization.

**Item 3. - Defaults upon Senior Securities**

Not Applicable

**Item 4. - Mine Safety Disclosures**

Not Applicable

**Item 5. - Other Information**

None

**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 – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Linkbase Document |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |

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 November 7, 2022.

NI HOLDINGS, INC.

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

/s/ Seth C. Daggett
Seth C. Daggett
Chief Financial Officer
*(Principal Financial Officer and Principal Accounting Officer)*

**Exhibit 31.1**

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.

November 7, 2022

/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, Seth C. Daggett, 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.

November 7, 2022

/s/ Seth C. Daggett
Seth C. Daggett
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 September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Michael J. Alexander, President and Chief Executive Officer, and Seth C. Daggett, 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.

November 7, 2022

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

November 7, 2022

/s/ Seth C. Daggett
Seth C. Daggett
Chief Financial Officer
(*Principal Financial Officer*)