

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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2024  
or

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

For transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 001-38046

**ICC Holdings, Inc.**

(Exact name of registrant as specified in its charter)

**Pennsylvania**

(State or other jurisdiction of  
incorporation or organization)

**225 20th Street, Rock Island, Illinois**  
(Address of principal executive offices)

**81-3359409**

(I.R.S. Employer  
Identification No.)

**61201**  
(Zip Code)

**(309) 793-1700**

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	ICCH	The NASDAQ Stock Market LLC

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ☐  
Non-accelerated filer ☒

Accelerated filer ☐  
Smaller reporting company ☒  
Emerging growth company ☐

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

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

The number of shares of the registrant's common stock outstanding as of November 7, 2024 was 3,138,580.

**Table of Contents**

	<b><u>Page</u></b>
<b><u>PART I</u></b>	
Item 1	<b><u>Financial Statements</u></b>
	<a href="#">Condensed Consolidated Balance Sheets as of September 30, 2024 (unaudited) and December 31, 2023</a>
	<a href="#">Condensed Consolidated Statements of Earnings and Comprehensive Earnings for the Three Month Periods Ended September 30, 2024 and 2023 (unaudited)</a>
	<a href="#">Condensed Consolidated Statements of Earnings and Comprehensive Earnings for the Nine Month Periods Ended September 30, 2024 and 2023 (unaudited)</a>
	<a href="#">Condensed Consolidated Statements of Stockholders Equity for the Three and Nine Month Periods Ended September 30, 2024 and 2023 (unaudited)</a>
	<a href="#">Condensed Consolidated Statements of Cash Flows for the Nine Month Periods Ended September 30, 2024 and 2023 (unaudited)</a>
	<a href="#">Notes to Unaudited Condensed Consolidated Financial Statements</a>
Item 2	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>
Item 3	<a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>
Item 4	<a href="#">Controls and Procedures</a>
<b><u>PART II</u></b>	
Item 1	<a href="#">Legal Proceedings</a>
Item 1A	<a href="#">Risk Factors</a>
Item 2	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>
Item 3	<a href="#">Default Upon Senior Securities</a>
Item 4	<a href="#">Mine Safety Disclosures</a>
Item 5	<a href="#">Other Information</a>
Item 6	<a href="#">Exhibits</a>
<a href="#">Signatures</a>	

# PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

### ICC Holdings, Inc. and Subsidiaries Condensed Consolidated Balance Sheets

	As of	
	September 30, 2024	December 31, 2023
	(Unaudited)	
<b>Assets:</b>		
Investments and cash:		
Fixed maturity securities (amortized cost of \$ 120,448,405 at 9/30/2024 and \$ 119,336,041 at 12/31/2023)	\$ 114,743,833	\$ 110,955,697
Common stocks at fair value	14,470,556	12,191,621
Preferred stocks at fair value	2,924,056	2,896,296
Other invested assets, net of allowances for credit losses of \$ 310,000 at 9/30/2024 and \$ 39,000 at 12/31/2023	13,958,375	8,898,409
Property held for investment, at cost, net of accumulated depreciation of \$ 719,900 at 9/30/2024 and \$ 682,402 at 12/31/2023	5,904,718	5,910,864
Cash and cash equivalents	11,011,618	1,478,135
<b>Total investments and cash</b>	<b>163,013,156</b>	<b>142,331,022</b>
Accrued investment income	1,042,274	915,156
Premiums and reinsurance balances receivable, net of allowances for credit losses of \$ 130,000 at 9/30/2024 and \$ 143,000 at 12/31/2023	38,062,859	37,220,433
Ceded unearned premiums	774,949	755,099
Reinsurance balances recoverable on unpaid losses and settlement expenses, net of allowances for credit losses of \$ 80,000 at 9/30/2024 and \$ 82,000 at 12/31/2023	12,519,808	12,736,579
Federal income taxes	2,544,027	2,775,366
Deferred policy acquisition costs, net	9,178,039	8,552,459
Property and equipment, at cost, net of accumulated depreciation of \$ 7,381,278 at 9/30/2024 and \$ 6,990,076 at 12/31/2023	3,271,851	3,325,322
Other assets, net of allowances for credit losses of \$ 2,000 at 9/30/2024 and \$ 5,000 at 12/31/2023	2,520,452	2,405,577
<b>Total assets</b>	<b>\$ 232,927,415</b>	<b>\$ 211,017,013</b>
<b>Liabilities:</b>		
Unpaid losses and settlement expenses	\$ 83,582,487	\$ 71,919,585
Unearned premiums	51,295,631	47,259,637
Reinsurance balances payable	1,020,657	1,132,301
Corporate debt	15,000,000	15,000,000
Accrued expenses	7,696,366	7,442,617
Other liabilities	1,228,786	1,259,324
<b>Total liabilities</b>	<b>159,823,927</b>	<b>144,013,464</b>
<b>Equity:</b>		
Common stock <sup>1</sup>	35,000	35,000
Treasury stock, at cost <sup>2</sup>	(5,727,278)	(5,710,324)
Additional paid-in capital	33,597,942	33,330,846
Accumulated other comprehensive (loss), net of tax	(4,506,518)	(6,621,336)
Retained earnings	51,403,889	47,844,368
Less: Unearned Employee Stock Ownership Plan shares at cost <sup>3</sup>	(1,699,547)	(1,875,005)
<b>Total equity</b>	<b>73,103,488</b>	<b>67,003,549</b>
<b>Total liabilities and equity</b>	<b>\$ 232,927,415</b>	<b>\$ 211,017,013</b>

<sup>1</sup> Par value \$0.01; authorized: 2024 and 2023 - 10,000,000 shares ; issued: 2024 – 3,500,000 shares and 2023 – 3,500,000 shares; outstanding: 2024 – 3,138,580 and 2023 – 3,138,976 shares

<sup>2</sup> 2024 – 361,420 shares and 2023 – 361,024 shares

<sup>3</sup> 2024 – 175,844 shares and 2023 – 187,498 shares

See accompanying notes to consolidated financial statements .

**ICC Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Earnings and Comprehensive Earnings (Unaudited)**

	<b>For the Three-Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>
Net premiums earned	\$ 21,711,407	\$ 19,233,517
Net investment income	1,556,776	1,342,258
Net realized investment gains	437,258	199,928
Net unrealized gains (losses) on investments	613,594	(1,062,332)
Other	56,380	51,000
Consolidated revenues	24,375,415	19,764,371
Losses and settlement expenses	14,144,203	13,436,464
Policy acquisition costs and other operating expenses	7,301,724	7,029,218
Interest expense on debt	46,409	46,409
General corporate expenses	264,274	220,093
Total expenses	21,756,610	20,732,184
Earnings (loss) before income taxes	2,618,805	(967,813)
Total income tax expense (benefit)	566,613	(198,850)
Net earnings (loss)	\$ 2,052,192	\$ (768,963)
Other comprehensive earnings (loss), net of tax	3,234,962	(3,025,254)
Comprehensive earnings (loss)	\$ 5,287,154	\$ (3,794,217)
Earnings per share:		
Basic:		
Basic net earnings (loss) per share	\$ 0.69	\$ (0.26)
Diluted:		
Diluted net earnings (loss) per share	\$ 0.69	\$ (0.26)
Weighted average number of common shares outstanding:		
Basic	2,964,743	2,945,199
Diluted	2,986,401	2,968,808

See accompanying notes to consolidated financial statements.

**ICC Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Earnings and Comprehensive Earnings (Unaudited)**

	<b>For the Nine-Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>
Net premiums earned	\$ 62,331,966	\$ 55,528,867
Net investment income	4,536,992	3,798,432
Net realized investment gains	584,925	268,375
Net unrealized gains on investments	2,134,454	279,100
Other	46,283	160,714
Consolidated revenues	69,634,620	60,035,488
Losses and settlement expenses	41,034,199	36,698,631
Policy acquisition costs and other operating expenses	23,046,544	20,823,605
Interest expense on debt	138,218	137,713
General corporate expenses	870,968	616,304
Total expenses	65,089,929	58,276,253
Earnings before income taxes	4,544,691	1,759,235
Total income tax expense	985,170	363,164
Net earnings	<u>\$ 3,559,521</u>	<u>\$ 1,396,071</u>
Other comprehensive earnings (loss), net of tax	2,114,818	(2,193,230)
Comprehensive earnings (loss)	<u>\$ 5,674,339</u>	<u>\$ (797,159)</u>
Earnings per share:		
Basic:		
Basic net earnings per share	\$ 1.20	\$ 0.47
Diluted:		
Diluted net earnings per share	\$ 1.20	\$ 0.47
Weighted average number of common shares outstanding:		
Basic	2,954,852	2,945,686
Diluted	2,976,510	2,969,295

See accompanying notes to consolidated financial statements.

**ICC Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Stockholders' Equity (Unaudited)**

	Common stock	Treasury stock	Unearned ESOP	Additional paid-in capital	Retained earnings	Accumulated other comprehensive earnings (loss)	Total equity
<b>Balance, January 1, 2023</b>	\$ 35,000	\$ (5,463,535)	\$ (2,109,375)	\$ 33,119,125	\$ 43,701,233	\$ (8,841,517)	\$ 60,440,931
Cumulative adjustment for adoption of ASU 2016-13, net of tax	—	—	—	—	(113,760)	—	(113,760)
Purchase of treasury stock	—	(46,334)	—	—	—	—	(46,334)
Net earnings	—	—	—	—	1,578,545	—	1,578,545
Other comprehensive earnings, net of tax	—	—	—	—	—	1,596,353	1,596,353
Restricted stock unit expense	—	—	—	52,850	—	—	52,850
ESOP compensation expense	—	—	57,790	32,154	—	—	89,943
<b>Balance, March 31, 2023</b>	\$ 35,000	\$ (5,509,869)	\$ (2,051,585)	\$ 33,204,129	\$ 45,166,018	\$ (7,245,164)	\$ 63,598,529
Purchase of treasury stock	—	(220,903)	—	—	—	—	(220,903)
Net earnings	—	—	—	—	586,489	—	586,489
Other comprehensive earnings (loss), net of tax	—	—	—	—	—	(764,329)	(764,329)
Restricted stock unit expense	—	158,674	—	(99,303)	—	—	59,371
ESOP compensation expense	—	—	58,432	36,451	—	—	94,884
<b>Balance, June 30, 2023</b>	\$ 35,000	\$ (5,572,098)	\$ (1,993,153)	\$ 33,141,277	\$ 45,752,507	\$ (8,009,493)	\$ 63,354,040
Purchase of treasury stock	—	(128,490)	—	—	—	—	(128,490)
Net earnings (loss)	—	—	—	—	(768,963)	—	(768,963)
Other comprehensive earnings (loss), net of tax	—	—	—	—	—	(3,025,254)	(3,025,254)
Restricted stock unit expense	—	—	—	60,032	—	—	60,032
ESOP compensation expense	—	—	59,074	36,011	—	—	95,085
<b>Balance, September 30, 2023</b>	\$ 35,000	\$ (5,700,588)	\$ (1,934,079)	\$ 33,237,320	\$ 44,983,544	\$ (11,034,747)	\$ 59,586,450
	Common stock	Treasury stock	Unearned ESOP	Additional paid-in capital	Retained earnings	Accumulated other comprehensive earnings (loss)	Total equity
<b>Balance, January 1, 2024</b>	\$ 35,000	\$ (5,710,324)	\$ (1,875,005)	\$ 33,330,846	\$ 47,844,368	\$ (6,621,336)	\$ 67,003,549
Purchase of treasury stock	—	(66,655)	—	—	—	—	(66,655)
Net earnings	—	—	—	—	2,239,205	—	2,239,205
Other comprehensive earnings (loss), net of tax	—	—	—	—	—	(640,112)	(640,112)
Restricted stock unit expense	—	—	—	59,380	—	—	59,380
ESOP compensation expense	—	—	58,273	31,771	—	—	90,044
<b>Balance, March 31, 2024</b>	\$ 35,000	\$ (5,776,979)	\$ (1,816,732)	\$ 33,421,997	\$ 50,083,573	\$ (7,261,448)	\$ 68,685,411
Purchase of treasury stock	—	(124,667)	—	—	—	—	(124,667)
Net earnings (loss)	—	—	—	—	(731,876)	—	(731,876)
Other comprehensive earnings (loss), net of tax	—	—	—	—	—	(480,032)	(480,032)
Restricted stock unit expense	—	174,368	—	(11,226)	—	—	163,142
ESOP compensation expense	—	—	58,272	43,427	—	—	101,699
<b>Balance, June 30, 2024</b>	\$ 35,000	\$ (5,727,278)	\$ (1,758,460)	\$ 33,454,198	\$ 49,351,697	\$ (7,741,480)	\$ 67,613,677
Net earnings	—	—	—	—	2,052,192	—	2,052,192
Other comprehensive earnings, net of tax	—	—	—	—	—	3,234,962	3,234,962
Restricted stock unit expense	—	—	—	68,421	—	—	68,421
ESOP compensation expense	—	—	58,913	75,323	—	—	134,236
<b>Balance, September 30, 2024</b>	\$ 35,000	\$ (5,727,278)	\$ (1,699,547)	\$ 33,597,942	\$ 51,403,889	\$ (4,506,518)	\$ 73,103,488

See accompanying notes to consolidated financial statements.

**ICC Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows (Unaudited)**

	Nine-Month Periods Ended September 30,	
	2024	2023
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 3,559,521	\$ 1,396,071
Adjustments to reconcile net earnings to net cash provided by operating activities		
Net realized investment gains	(584,925)	(268,375)
Net unrealized gains on investments	(2,134,454)	(279,100)
Depreciation	616,219	541,656
Deferred income tax	(988)	(144,279)
Amortization of bond premium and discount	(13,026)	57,647
Stock-based compensation expense	616,922	452,165
Change in:		
Accrued investment income	(127,118)	(120,242)
Premiums and reinsurance balances receivable	(842,426)	(4,455,472)
Ceded unearned premiums	(19,850)	201,137
Reinsurance balances recoverable	216,771	(2,837,908)
Deferred policy acquisition costs	(625,580)	(1,180,463)
Unpaid losses and settlement expenses	11,662,902	12,928,415
Unearned premiums	4,035,994	5,439,877
Reinsurance balances payable	(111,644)	(369,510)
Accrued expenses	253,749	(56,038)
Current federal income tax	(329,837)	(323,761)
Other	(145,408)	(359,595)
Net cash provided by operating activities	16,026,822	10,622,225
<b>Cash flows from investing activities:</b>		
Purchases of:		
Fixed maturity securities	(13,059,136)	(18,181,637)
Common stocks	(2,264,086)	(3,158,620)
Preferred stocks	(464,619)	(285,649)
Other invested assets	(6,176,600)	(3,346,778)
Property held for investment	(626,166)	(1,138,302)
Property and equipment	(429,204)	(462,729)
Proceeds from sales, maturities and calls of:		
Fixed maturity securities	11,985,012	9,785,891
Common stocks	2,033,174	3,831,416
Preferred stocks	679,644	337,440
Other invested assets	1,403,809	354,276
Property held for investment	612,017	1,545,977
Property and equipment	4,138	17,789
Net cash used in investing activities	(6,302,017)	(10,700,926)
<b>Cash flows from financing activities:</b>		
Purchase of treasury stock	(191,322)	(395,727)
Net cash used in financing activities	(191,322)	(395,727)
Net increase (decrease) in cash and cash equivalents	9,533,483	(474,428)
Cash and cash equivalents at beginning of year	1,478,135	3,139,986
Cash and cash equivalents at end of period	\$ 11,011,618	\$ 2,665,558
<b>Supplemental information:</b>		
Federal income tax paid	\$ 725,000	\$ 180,000
Interest paid	\$ 138,200	\$ 132,400

See accompanying notes to consolidated financial statements.

## Notes to Unaudited Condensed Consolidated Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. DESCRIPTION OF BUSINESS

ICC Holdings, Inc. is a Pennsylvania corporation that was organized in 2016. As used in this Form 10-Q, references to the "Company," "we," "us," and "our" refer to the consolidated group. On a stand-alone basis ICC Holdings, Inc. is referred to as the "Parent Company." The consolidated group consists of the holding company, ICC Holdings, Inc.; Two Rivers Realty Investments, LLC, a real estate services and holding company; Beverage Insurance Agency, Inc., dba Beverage Insurance Specialty, a wholesale insurance agency; Estrella Innovative Solutions, Inc., an outsourcing company; Southern Hospitality Education, LLC, dba Katkin, a full-service food safety and education company; Guild Insurance Inc. (Guild), an operating insurance agency acquired in October 2023; and Illinois Casualty Company (ICC), an operating insurance company. ICC is an Illinois domiciled company. ICC owns Two Rivers Investment Properties, LLC, a real estate services and holding company, and ICC Re Limited, a vehicle to participate in various Lloyd's of London (Lloyd's) syndicate's underwriting activity.

We are a specialty insurance carrier primarily underwriting commercial multi-peril, liquor liability, workers' compensation, and umbrella liability coverages for the food and beverage industry through our subsidiary insurance company, ICC. ICC writes business in Arizona, Colorado, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Ohio, Pennsylvania, Tennessee, Utah, and Wisconsin and markets through independent agents. Approximately 23.0% and 23.1% of the premium is written in Illinois for the three months ended September 30, 2024 and 2023, respectively. For the nine months ended September 30, 2024 and 2023, approximately 21.9% and 23.5%, respectively, of the premium is written in Illinois. The Company operates as one segment.

On June 8, 2024, the Company entered into an Agreement and Plan of Merger (as amended, the "Merger Agreement") with Mutual Capital Holdings, Inc., a Pennsylvania corporation (MCH), and Mutual Capital Merger Sub, Inc., a Pennsylvania corporation and a wholly owned subsidiary of MCH ("Merger Sub"). Pursuant to the Merger Agreement and subject to the satisfaction or waiver of the conditions set forth therein, Merger Sub will be merged with and into the Company, with the Company continuing as the surviving corporation and a wholly owned subsidiary of MCH (the "Merger"). As a result of the Merger, each issued and outstanding share of the Company's common stock, par value \$0.01 per share (the "Company Common Stock") (other than shares owned by the Company as treasury stock), will be converted into the right to receive \$23.50 in cash, without interest, representing a total equity value of approximately \$73.8 million. The closing of the Merger is subject to certain conditions, including (i) the approval and adoption of the Merger Agreement by the holders of the Company Common Stock, (ii) the receipt of authorizations required to be obtained from applicable insurance regulators, and (iii) other customary conditions. For each of the Company and MCH, the obligation to complete the Merger is also subject to the accuracy of the representations and warranties of, and compliance with covenants by, the other party, in accordance with the materiality standards set forth in the Merger Agreement. For a description of the treatment of equity awards under the Merger Agreement, see the Company's definitive proxy statement on Schedule 14A filed with the Securities and Exchange Commission (the "SEC") on October 28, 2024.

#### B. PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial reporting and with the instructions to Form 10-Q. Accordingly, they do not include all the disclosures required by GAAP for complete financial statements. As such, these unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's Annual Report on Form 10-K, for the year ended December 31, 2023 (the "2023 10-K"). Management believes that the disclosures are adequate to make the information presented not misleading, and all normal and recurring adjustments necessary to present fairly the financial position at September 30, 2024 the results of operations of the Company and its subsidiaries for all periods presented have been made. The results of operations for any interim period are not necessarily indicative of the operating results for a full year.

The preparation of the unaudited condensed consolidated interim financial statements requires management to make estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated interim financial statements, and the reported amounts of revenue and expenses during the period. These amounts are inherently subject to change and actual results could differ significantly from these estimates.

#### C. SIGNIFICANT ACCOUNTING POLICIES

On January 1, 2023, the Company adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 was issued to improve the recognition and measurement of credit losses and to provide more decision-useful information about those losses. This new impairment model is based on the expected losses rather than incurred losses. ASU 2016-13 requires that a financial asset measured at amortized cost be presented at the net amount expected to be collected by means of an allowance for credit losses that is included in net earnings. Credit losses relating to available-for-sale debt securities are also required to be recorded through a reversible allowance for credit losses but is limited to the amount by which the fair value is less than amortized cost. The Company applied this standard to fixed maturity securities, accrued interest, premiums and reinsurance balances receivable, reinsurance balances recoverable on unpaid losses and settlement expenses, and other assets using the loss-rate method. In total, the cumulative-effect adjustment made to the financials as of the beginning of 2023 resulted in a \$113,760 decrease in retained earnings.

#### D. PROSPECTIVE ACCOUNTING STANDARDS

There are no prospective accounting standards that would have a material impact on our financial statements as of September 30, 2024.



#### E. PROPERTY AND EQUIPMENT

Annually, the Company reviews the major asset classes of property and equipment held for impairment. As of September 30, 2024 and December 31, 2023, the Company recognized no impairments. Property and equipment are summarized as follows:

	As of	
	September 30, 2024	December 31, 2023
Automobiles	\$ 699,375	\$ 645,458
Furniture and fixtures	530,359	525,843
Computer equipment and software	5,247,887	5,037,301
Home office	4,175,508	4,106,796
Total cost	10,653,129	10,315,398
Accumulated depreciation	(7,381,278)	(6,990,076)
Net property and equipment	<u>\$ 3,271,851</u>	<u>\$ 3,325,322</u>

#### F. COMPREHENSIVE EARNINGS

Comprehensive (loss) earnings include net earnings (loss) plus unrealized gains (losses) on available-for-sale investment securities, net of tax. In reporting the components of comprehensive earnings on a net basis in the statement of earnings and comprehensive earnings, the Company used a 21% tax rate.

The following table presents changes in accumulated other comprehensive (loss) earnings for unrealized gains and losses on available-for-sale securities:

	Nine-Months Ended September 30,	
	2024	2023
Beginning balance	\$ (6,621,336)	\$ (8,841,517)
Other comprehensive earnings (loss) before reclassification	2,097,770	(2,239,651)
Amount reclassified from accumulated other comprehensive earnings	17,048	46,421
Net current period other comprehensive earnings (loss)	2,114,818	(2,193,230)
Ending balance	<u>\$ (4,506,518)</u>	<u>\$ (11,034,747)</u>

[Table of Contents](#)

The following table illustrates the components of other comprehensive earnings (loss) for each period presented in the condensed consolidated interim financial statements.

	Three-Month Periods Ended September 30,					
	2024			2023		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Other comprehensive earnings (loss), net of tax						
Unrealized gains and losses on AFS investments:						
Unrealized holding gains (losses) arising during the period	\$ 4,094,889	\$ (859,927)	\$ 3,234,962	\$ (3,836,298)	\$ 805,622	\$ (3,030,676)
Reclassification adjustment for losses included in net earnings	—	—	—	6,863	(1,441)	5,422
Total other comprehensive earnings (loss)	<u>\$ 4,094,889</u>	<u>\$ (859,927)</u>	<u>\$ 3,234,962</u>	<u>\$ (3,829,435)</u>	<u>\$ 804,181</u>	<u>\$ (3,025,254)</u>

  

	Nine-Month Periods Ended September 30,					
	2024			2023		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Other comprehensive (loss) earnings, net of tax						
Unrealized gains and losses on AFS investments:						
Unrealized holding gains (losses) arising during the period	\$ 2,655,405	\$ (557,635)	\$ 2,097,770	\$ (2,835,001)	\$ 595,350	\$ (2,239,651)
Reclassification adjustment for losses included in net earnings	21,580	(4,532)	17,048	58,761	(12,340)	46,421
Total other comprehensive earnings (loss)	<u>\$ 2,676,985</u>	<u>\$ (562,167)</u>	<u>\$ 2,114,818</u>	<u>\$ (2,776,240)</u>	<u>\$ 583,010</u>	<u>\$ (2,193,230)</u>

The following table provides the reclassifications from accumulated other comprehensive earnings for the periods presented:

Details about Accumulated Other Comprehensive Earnings Component	Amounts Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Statement where Net Earnings is Presented
	Nine-Month Periods Ended September 30,		
	2024	2023	
Unrealized losses on AFS investments:			
	\$ 21,580	\$ 58,761	Net realized investment losses
	(4,532)	(12,340)	Income tax (benefit)
Total reclassification adjustment, net of tax	\$ 17,048	\$ 46,421	

#### G. RISKS AND UNCERTAINTIES

Certain risks and uncertainties are inherent to our day-to-day operations. Adverse changes in the economy could lower demand for our insurance products or negatively impact our investment results, both of which could have an adverse effect on the revenue and profitability of our operations. War, terrorism, labor shortages and tightening, inflation and related monetary policy responses, and recession fears are also causing volatility and disruptions in credit and capital markets, and the business prospects of the industry we serve. The cumulative effects of these events on the Company cannot be predicted, but could reduce demand for our insurance policies, result in an increased level of losses, settlement expenses or other operating costs, or reduce the market value of invested assets held by the Company.

#### H. INTANGIBLES

Intangible assets of \$1.0 million are reported within Other Assets on the Consolidated Balance Sheets. Finite-lived intangible assets are amortized over their estimated useful lives.

## 2. INVESTMENTS

The Company's investments are primarily composed of fixed income debt securities and common and preferred equity securities. We carry our equity securities at fair value and categorize all our fixed maturity debt securities as available-for-sale (AFS), which are carried at fair value. When available, quoted market prices are obtained to determine fair value for the Company's investments. If a quoted market price is not available, fair value is estimated using a secondary pricing source or using quoted market prices of similar securities. The Company has no investment securities for which fair value is determined using Level 3 inputs as defined in *Note 3 – Fair Value Disclosures*. Realized gains and losses on disposition of investments are based on specific identification of the investments sold on the settlement date, which does not differ significantly from trade date accounting.

### Available-for-Sale Fixed Maturity and Equity Securities

The following tables are a summary of the proceeds from sales, maturities, and calls of AFS fixed maturity and equity securities and the related gross realized gains and losses.

For the Three-Months Ended September 30,				
	Proceeds	Gains	Losses	Net Realized Gains (Losses)
<b>2024</b>				
Fixed maturity securities	\$ 2,924,552	\$ —	\$ —	\$ —
Common stocks	1,208,768	390,453	(70,800)	319,653
Preferred stocks	309,756	334	(117)	217
<b>2023</b>				
Fixed maturity securities	\$ 1,443,108	\$ —	\$ (6,863)	\$ (6,863)
Common stocks	1,807,080	395,780	(188,989)	206,791
Preferred stocks	—	—	—	—
For the Nine-Months Ended September 30,				
	Proceeds	Gains	Losses	Net Realized Gains (Losses)
<b>2024</b>				
Fixed maturity securities	\$ 11,985,012	\$ 8,512	\$ (30,092)	\$ (21,580)
Common stocks	2,033,174	673,559	(154,234)	519,325
Preferred stocks	679,644	1,743	(31,952)	(30,209)
<b>2023</b>				
Fixed maturity securities	\$ 9,785,891	\$ —	\$ (58,761)	\$ (58,761)
Common stocks	3,831,416	\$ 800,571	\$ (496,207)	\$ 304,364
Preferred stocks	337,440	\$ 29,371	\$ (6,599)	\$ 22,772

The amortized cost and estimated fair value of fixed income securities at September 30, 2024, by contractual maturity, are shown as follows:

	Amortized Cost	Fair Value
Due in one year or less	\$ 3,251,814	\$ 3,203,143
Due after one year through five years	17,273,034	16,970,351
Due after five years through 10 years	25,337,861	24,748,130
Due after 10 years	26,050,171	22,497,708
Asset and mortgage-backed securities without a specific due date	48,349,132	47,141,221
Redeemable preferred stocks	186,393	183,280
<b>Total fixed maturity securities</b>	<b>\$ 120,448,405</b>	<b>\$ 114,743,833</b>

Expected maturities may differ from contractual maturities due to call provisions on some existing securities.

[Table of Contents](#)

The following table is a schedule of amortized cost and estimated fair values of investments in securities classified as available for sale at September 30, 2024 and December 31, 2023:

			Gross Unrealized	
	Amortized Cost	Fair Value	Gains	Losses
2024				
Fixed maturity securities:				
U.S. Treasury	\$ 1,351,018	\$ 1,326,055	\$ —	\$ (24,963)
MBS/ABS/CMBS	48,349,132	47,141,221	716,346	(1,924,257)
Corporate	47,980,649	46,192,658	548,532	(2,336,523)
Municipal	22,581,213	19,900,619	190,410	(2,871,004)
Redeemable preferred stock	186,393	183,280	311	(3,424)
Total fixed maturity securities	<u>\$ 120,448,405</u>	<u>\$ 114,743,833</u>	<u>\$ 1,455,599</u>	<u>\$ (7,160,171)</u>
			Gross Unrealized	
	Amortized Cost	Fair Value	Gains	Losses
2023				
Fixed maturity securities:				
U.S. Treasury	\$ 1,351,768	\$ 1,289,774	\$ —	\$ (61,994)
MBS/ABS/CMBS	49,400,028	47,020,328	283,957	(2,663,657)
Corporate	45,764,492	42,981,718	287,412	(3,070,186)
Municipal	22,633,360	19,493,317	153,103	(3,293,146)
Redeemable preferred stock	186,393	170,560	—	(15,833)
Total fixed maturity securities	<u>\$ 119,336,041</u>	<u>\$ 110,955,697</u>	<u>\$ 724,472</u>	<u>\$ (9,104,816)</u>

All the Company's collateralized securities carry an average credit rating of AA by one or more major rating agencies and continue to pay according to contractual terms. Included within MBS/ABS/CMBS, as defined in *Note 3 – Fair Value Disclosures*, are asset backed securities with fair values of \$8,266,499 and \$8,462,540, residential mortgage-backed securities of \$33,749,479 and \$32,928,128, and commercial mortgage-backed securities of \$5,125,243 and \$5,629,659 at September 30, 2024 and December 31, 2023, respectively. The Company has recorded no current expected credit loss (CECL) allowances related to available for sale investments at September 30, 2024 and December 31, 2023, respectively.

## ANALYSIS

The following tables display the total value of securities that were in an unrealized loss position as of September 30, 2024 and December 31, 2023. The tables segregate the securities based on type, noting the fair value, amortized cost, and unrealized loss on each category of investment as well as in total. The tables further classifies the securities based on the length of time they have been in an unrealized loss position.

	September 30, 2024			December 31, 2023		
	< 12 Months	12 Months & Greater	Total	< 12 Months	12 Months & Greater	Total
<b>Fixed Maturity Securities:</b>						
<b>U.S. Treasury</b>						
Fair value	\$ —	\$ 1,326,055	\$ 1,326,055	\$ —	\$ 1,289,774	\$ 1,289,774
Amortized cost	—	1,351,018	1,351,018	—	1,351,768	1,351,768
Unrealized loss	—	(24,963)	(24,963)	—	(61,994)	(61,994)
<b>MBS/ABS/CMBS</b>						
Fair value	505,082	19,582,844	20,087,926	8,345,340	24,323,865	32,669,205
Amortized cost	505,315	21,506,868	22,012,183	8,462,010	26,870,852	35,332,862
Unrealized loss	(233)	(1,924,024)	(1,924,257)	(116,670)	(2,546,987)	(2,663,657)
<b>Corporate</b>						
Fair value	—	28,991,279	28,991,279	477,051	33,352,754	33,829,805
Amortized cost	—	31,327,802	31,327,802	478,370	36,421,621	36,899,991
Unrealized loss	—	(2,336,523)	(2,336,523)	(1,319)	(3,068,867)	(3,070,186)
<b>Municipal</b>						
Fair value	776,030	12,544,802	13,320,832	—	12,149,238	12,149,238
Amortized cost	776,741	15,415,095	16,191,836	—	15,442,384	15,442,384
Unrealized loss	(711)	(2,870,293)	(2,871,004)	—	(3,293,146)	(3,293,146)
<b>Redeemable preferred stock</b>						
Fair value	22,910	106,096	129,006	149,240	21,320	170,560
Amortized cost	23,005	109,425	132,430	161,549	24,844	186,393
Unrealized loss	(95)	(3,329)	(3,424)	(12,309)	(3,524)	(15,833)
<b>Total</b>						
Fair value	1,304,022	62,551,076	63,855,098	8,971,631	71,136,951	80,108,582
Amortized cost	1,305,061	69,710,208	71,015,269	9,101,929	80,111,469	89,213,398
Unrealized loss	\$ (1,039)	\$ (7,159,132)	\$ (7,160,171)	\$ (130,298)	\$ (8,974,518)	\$ (9,104,816)

The fixed income portfolio contained 184 securities in an unrealized loss position as of September 30, 2024. Of these 184 securities, 178 have been in an unrealized loss position for 12 consecutive months or longer and represent \$ 7,159,132 in unrealized losses. All fixed income securities in the investment portfolio continue to pay the expected coupon payments under the contractual terms of the securities. Credit-related impairments on fixed income securities that we do not plan to sell, and for which we are not more likely than not to be required to sell, are recognized in net earnings. Any non-credit related impairment is recognized in comprehensive earnings. Current unrealized losses are the result of rising interest rates. Based on management's analysis, the fixed income portfolio is of a high credit quality, and it is believed it will recover the amortized cost basis of the fixed income securities. Management monitors the credit quality of the fixed income investments to assess if it is probable that the Company will receive its contractual or estimated cash flows in the form of principal and interest.

There were no CECL allowances from the fixed income portfolio recognized in net earnings during the nine months ended September 30, 2024 and 2023. In addition, the Company is not required to, nor does it intend to sell these investments prior to recovering the entire amortized cost basis for each security, which may be at maturity.

**UNREALIZED GAINS AND LOSSES ON INVESTMENTS**

Net unrealized gains recognized during the three and nine months ended September 30, 2024 on equity securities and limited partnership investments were \$534,212 and \$1,595,251. Net unrealized (losses) gains recognized during the three and nine months ended September 30, 2023 on investments held as of September 30, 2023 were losses of \$837,147 and gains of \$268,677.

**Other Invested Assets**

Other invested assets as of September 30, 2024 and December 31, 2023 were \$13,958,375 and \$8,898,409, respectively. These amounts were net of \$310,000 and \$39,000 in CECL allowances, respectively. Other invested assets as of September 30, 2024 include privately held investments of \$2,543,637, notes receivable of \$10,480,540, Funds at Lloyd's of \$819,198, and a \$425,000 membership in the Federal Home Loan Bank of Chicago (FHLBC). As of December 31, 2023, privately held investments were \$2,197,232, notes receivable were \$5,495,979, Funds at Lloyd's were \$819,198, and the membership in FHLBC was \$425,000.

As of September 30, 2024, privately held investments are comprised of a \$2,078,607 limited partnership accounted for under the equity method with a three month lag, a \$250,000 SAFE investment carried at cost, and \$215,030 in stock carried at fair value. In November 2021, we agreed to commit up to \$10.0 million to a private investment fund, subject to regulatory approval, which may be callable from time to time by such fund. As of September 30, 2024, the Company has received calls for \$1,949,134 for a limited partnership from the private investment fund. Our balance available for future endeavors with the private investment fund is \$8,050,866 as of September 30, 2024. In June 2024, we agreed to commit up to \$3.0 million to another private investment fund, subject to regulatory approval, which may also be callable from time to time by such fund. As of September 30, 2024, the Company has received no calls related to this fund. As of December 31, 2023, privately held investments are comprised of a \$1,734,622 limited partnership accounted for under the equity method with a three month lag, a \$250,000 SAFE investment carried at cost, and \$212,610 in stock carried at fair value. As of December 31, 2023, the Company received calls for \$1,949,134 for the limited partnership.

Notes receivable are carried at outstanding value plus accrued interest. As of September 30, 2024, most of the notes receivable bear interest between 2.0% and 9.0%. One note has interest at prime minus 25 basis points with a floor of 4.0%. The Company had \$310,000 in CECL allowances recorded related to notes receivable at September 30, 2024.

The Funds at Lloyd's and the membership in the FHLBC are carried at cost.

**3. FAIR VALUE DISCLOSURES**

Fair value is defined as the price in the principal market that would be received for an asset to facilitate an orderly transaction between market participants on the measurement date. The fair value of certain financial instruments is determined based on their underlying characteristics and relevant transactions in the marketplace. GAAP guidance requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance also describes three levels of inputs that may be used to measure fair value.

The following are the levels of the fair value hierarchy and a brief description of the type of valuation inputs that are used to establish each level:

- **Level 1** is applied to valuations based on readily available, unadjusted quoted prices in active markets for identical assets.
- **Level 2** is applied to valuations based upon quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities) or can be corroborated by observable market data.
- **Level 3** is applied to valuations that are derived from techniques in which one or more of the significant inputs are unobservable. Financial assets are classified based upon the lowest level of significant input that is used to determine fair value.

As a part of the process to determine fair value, management utilizes widely recognized, third-party pricing sources to determine fair values. Management has obtained an understanding of the third-party pricing sources' valuation methodologies and inputs. The following is a description of the valuation techniques used for financial assets that are measured at fair value, including the general classification of such assets pursuant to the fair value hierarchy.

**Corporate, Agencies, and Municipal Bonds**—The pricing vendor employs a multi-dimensional model which uses standard inputs including (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. The pricing vendor also monitors market indicators, as well as industry and economic events. All bonds valued using these techniques are classified as Level 2. All Corporate, Agencies, and Municipal securities are deemed Level 2.

**Mortgage-backed Securities (MBS), Collateralized Mortgage Obligations (CMO), Commercial Mortgage-backed Securities (CMBS) and Asset-backed Securities (ABS)**—The pricing vendor evaluation methodology includes principally interest rate movements and new issue data. Evaluation of the tranches (non-volatile, volatile, or credit sensitivity) is based on the pricing vendors' interpretation of accepted modeling and pricing conventions. This information is then used to determine the cash flows for each tranche, benchmark yields, pre-payment assumptions, and to incorporate collateral performance. To evaluate CMO volatility, an option adjusted spread model is used in combination with models that simulate interest rate paths to determine market price information. This process allows the pricing vendor to obtain evaluations of a broad universe of securities in a way that reflects changes in yield curve, index rates, implied volatility, mortgage rates, and recent trade activity. MBS, CMBS, CMO, and ABS with corroborated and observable inputs are classified as Level 2. All MBS, CMBS, CMO, and ABS holdings are deemed Level 2.

**U.S. Treasury Bonds, Common Stocks and Exchange Traded Funds**—U.S. treasury bonds and exchange traded equities have readily observable price levels and are classified as Level 1 (fair value based on quoted market prices). All common stock holdings are deemed Level 1.

**Preferred Stock**—Preferred stocks do not have readily observable prices but do have quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in markets that are not active; and inputs other than quoted prices and are classified as Level 2. All preferred stock holdings are deemed Level 2.

Due to the relatively short-term nature of cash, short-term investments, accounts receivable, and accounts payable, their carrying amounts are reasonable estimates of fair value. Other invested assets include notes receivable, stock, a limited partnership, a SAFE investment, Funds at Lloyd's, and membership in the FHLBC. Notes receivable are carried at outstanding balance plus accrued interest. Stock is at fair value when available. The limited partnership and Funds at Lloyd's, the SAFE investment, and the membership in FHLBC are carried at cost.

Assets measured at fair value on a recurring basis as of September 30, 2024, are summarized below:

	Quoted in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
AFS securities				
Fixed maturity securities				
U.S. treasury	\$ 1,326,055	\$ —	\$ —	\$ 1,326,055
MBS/ABS/CMBS	—	47,141,221	—	47,141,221
Corporate	—	46,192,658	—	46,192,658
Municipal	—	19,900,619	—	19,900,619
Redeemable preferred stocks	—	183,280	—	183,280
Total fixed maturity securities	1,326,055	113,417,778	—	114,743,833
Equity securities				
Common stocks	14,470,556	—	—	14,470,556
Perpetual preferred stocks	—	2,924,056	—	2,924,056
Total equity securities	14,470,556	2,924,056	—	17,394,612
Total marketable investments measured at fair value	\$ 15,796,611	\$ 116,341,834	\$ —	\$ 132,138,445

Assets measured at fair value on a recurring basis as of December 31, 2023, are summarized below:

	Quoted in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
AFS securities				
Fixed maturity securities				
U.S. treasury	\$ 1,289,774	\$ —	\$ —	\$ 1,289,774
MBS/ABS/CMBS	—	47,020,328	—	47,020,328
Corporate	—	42,981,718	—	42,981,718
Municipal	—	19,493,317	—	19,493,317
Redeemable preferred stocks	—	170,560	—	170,560
Total fixed maturity securities	1,289,774	109,665,923	—	110,955,697
Equity securities				
Common stocks	12,191,621	—	—	12,191,621
Perpetual preferred stocks	—	2,896,296	—	2,896,296
Total equity securities	12,191,621	2,896,296	—	15,087,917
Total marketable investments measured at fair value	\$ 13,481,395	\$ 112,562,219	\$ —	\$ 126,043,614

As noted in the previous tables, the Company has no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of September 30, 2024 or December 31, 2023. Additionally, there were no securities transferred in or out of Levels 1 and 2 during the nine-month periods ended September 30, 2024 and 2023.



#### **4. DEBT**

##### **Debt Obligation**

###### *Debt Obligations*

The Company had \$15,000,000 in outstanding debt as of September 30, 2024 and December 31, 2023.

The Company also has borrowing capacity of \$ 53.1 million with the Federal Home Loan Bank of Chicago (FHLBC), which is 25% of net admitted statutory assets of Illinois Casualty Company as of the prior year-end. As of September 30, 2024, the Company has used \$ 15.0 million of that capacity through three separate 5-year term loans expiring between 2025 and 2027, with a weighted average interest rate of 1.21%. One loan for \$6.0 million with a 1.4% interest rate expires on March 18, 2025.

The Company has \$18.9 million in bonds pledged as collateral for all FHLBC loans.

##### **Revolving Line of Credit**

As of September 30, 2024, the balance on the line of credit was \$ 0. As of the July 5, 2024 renewal, this line of credit is priced at prime plus 0.54% with a floor of 6.00% and renews annually with a current expiration date of July 5, 2025. The Company has \$4.0 million of available credit and has pledged \$4.0 million of business assets in the event the Company draws down on the line of credit. This agreement includes an annually calculated financial debt covenant requiring a minimum total adjusted capital of \$21.0 million. Total adjusted capital is the sum of an insurer's statutory capital and surplus as determined in accordance with the statutory accounting principles applicable to the annual financial statements required to be filed with Illinois Department of Insurance. There was no interest paid on the line of credit during the nine months ended September 30, 2024 and 2023.

#### **5. REINSURANCE**

In the ordinary course of business, the Company assumes and cedes premiums and selected insured risks with other insurance companies, known as reinsurance. A large portion of the reinsurance is put into effect under contracts known as treaties and, in some instances, by negotiation on each individual risk (known as facultative reinsurance). In addition, there are several types of treaties including quota share, excess of loss, and catastrophe reinsurance contracts that protect against losses over stipulated amounts arising from any one occurrence or event. The arrangements allow the Company to pursue greater diversification of business and serve to limit the maximum net loss to a single event, such as a catastrophe. Through the quantification of exposed policy limits in each region and the extensive use of computer-assisted modeling techniques, management monitors the concentration of risks exposed to catastrophic events.

Through the purchase of reinsurance, the Company also generally limits its net loss on any individual risk to a maximum of \$ 1,000,000 for casualty and workers' compensation business and \$1,000,000 for property, although certain treaties contain an annual aggregate deductible before reinsurance applies.

Premiums, written and earned, along with losses and settlement expenses incurred for the periods presented is summarized as follows:

	Three-Month Periods Ended September 30,	
	2024	2023
<b>WRITTEN</b>		
Direct	\$ 27,661,918	\$ 24,495,429
Reinsurance assumed	70,721	60,457
Reinsurance ceded	(3,514,356)	(2,870,582)
Net	<u>\$ 24,218,283</u>	<u>\$ 21,685,304</u>
<b>EARNED</b>		
Direct	\$ 25,126,580	\$ 22,057,631
Reinsurance assumed	64,138	54,269
Reinsurance ceded	(3,479,311)	(2,878,383)
Net	<u>\$ 21,711,407</u>	<u>\$ 19,233,517</u>
<b>LOSS AND SETTLEMENT EXPENSES INCURRED</b>		
Direct	\$ 15,088,964	\$ 17,854,337
Reinsurance assumed	46,296	18,080
Reinsurance ceded	(991,057)	(4,435,953)
Net	<u>\$ 14,144,203</u>	<u>\$ 13,436,464</u>
	Nine-Month Periods Ended September 30,	
	2024	2023
<b>WRITTEN</b>		
Direct	\$ 76,788,373	\$ 68,899,622
Reinsurance assumed	94,323	135,570
Reinsurance ceded	(10,534,586)	(7,865,311)
Net	<u>\$ 66,348,110</u>	<u>\$ 61,169,881</u>
<b>EARNED</b>		
Direct	\$ 72,749,157	\$ 63,468,235
Reinsurance assumed	97,545	127,080
Reinsurance ceded	(10,514,736)	(8,066,448)
Net	<u>\$ 62,331,966</u>	<u>\$ 55,528,867</u>
<b>LOSS AND SETTLEMENT EXPENSES INCURRED</b>		
Direct	\$ 43,628,846	\$ 43,754,741
Reinsurance assumed	69,403	58,499
Reinsurance ceded	(2,664,050)	(7,114,609)
Net	<u>\$ 41,034,199</u>	<u>\$ 36,698,631</u>

## 6. UNPAID LOSSES AND SETTLEMENT EXPENSES

The following table is a reconciliation of the Company's unpaid losses and settlement expenses:

	For the Three-Months Ended September 30,	
	2024	2023
<i>(In thousands)</i>		
Unpaid losses and settlement expense - beginning of the period:		
Gross	\$ 79,264	\$ 76,584
Less: Ceded	12,374	14,603
Less: CECL allowance for reinsurance recoverable on unpaid losses	79	—
Net	66,811	61,981
Increase in incurred losses and settlement expense:		
Current year	8,711	11,331
Prior years	5,433	2,105
Total incurred	14,144	13,436
Deduct: Loss and settlement expense payments for claims incurred:		
Current year	3,439	4,329
Prior years	6,534	7,011
Total paid	9,973	11,340
Net unpaid losses and settlement expense - end of the period	70,982	64,077
Plus: Reinsurance recoverable on unpaid losses net of CECL	12,520	16,350
Plus: CECL allowance for reinsurance recoverable on unpaid losses <sup>1</sup>	80	115
Gross unpaid losses and settlement expense - end of the period	\$ 83,582	\$ 80,542
	For the Nine-Months Ended September 30,	
	2024	2023
<i>(In thousands)</i>		
Unpaid losses and settlement expense - beginning of the period:		
Gross	\$ 71,920	\$ 67,614
Less: Ceded	12,737	13,610
Less: CECL allowance for reinsurance recoverable on unpaid losses	82	—
Net	59,101	54,004
Increase in incurred losses and settlement expense:		
Current year	32,866	33,333
Prior years	8,168	3,366
Total incurred	41,034	36,699
Deduct: Loss and settlement expense payments for claims incurred:		
Current year	8,410	9,045
Prior years	20,743	17,581
Total paid	29,153	26,626
Net unpaid losses and settlement expense - end of the period	70,982	64,077
Plus: Reinsurance recoverable on unpaid losses net of CECL	12,520	16,350
Plus: CECL allowance for reinsurance recoverable on unpaid losses <sup>1</sup>	80	115
Gross unpaid losses and settlement expense - end of the period	\$ 83,582	\$ 80,542

<sup>1</sup> See page 8, *Significant account policies*, for an explanation of CECL.

For the nine months ended September 30, 2024 and 2023, we experienced unfavorable development of \$8,168,000 and \$3,366,000, respectively. The unfavorable development for the nine months ended September 30, 2024 is primarily due to additional information received on prior year accident claims for Liquor Liability ( 79.3% of increase) and Businessowner's Property ( 15.1% of increase).

## 7. INCOME TAXES

The Company's effective tax rate for the nine month periods ended September 30, 2024 was 21.7% compared to 20.6% for the same period in 2023. Effective rates are dependent upon components of pretax earnings and losses and the related tax effects.

Income tax expense for the nine month periods ended September 30, 2024 and 2023 differed from the amounts computed by applying the U.S. federal tax rate of 21% to pretax income from continuing operations as demonstrated in the following table:

	For the Three-Months Ended September 30,	
	2024	2023
Provision for income taxes at the statutory federal tax rates	\$ 549,949	\$ (203,241)
Increase (reduction) in taxes resulting from:		
Tax-exempt interest income	(7,882)	(8,450)
Dividends received deduction	(10,391)	(18,802)
Proration of tax-exempt interest and dividends received deduction	4,338	6,604
Nondeductible expenses	23,240	22,512
Officer life insurance, net	2,459	2,527
Other	4,900	—
Total	<u>\$ 566,613</u>	<u>\$ (198,850)</u>

	For the Nine-Months Ended September 30,	
	2024	2023
Provision for income taxes at the statutory federal tax rates	\$ 954,385	\$ 369,439
Increase (reduction) in taxes resulting from:		
Tax-exempt interest income	(23,717)	(27,316)
Dividends received deduction	(29,645)	(59,537)
Proration of tax-exempt interest and dividends received deduction	12,671	21,074
Nondeductible expenses	73,585	57,555
Officer life insurance, net	(2,109)	1,949
Total	<u>\$ 985,170</u>	<u>\$ 363,164</u>

Management believes it is more likely than not that all deferred tax assets will be recovered as the result of future operations, which will generate sufficient taxable income to realize the deferred tax asset.

As of September 30, 2024 and December 31, 2023, the Company does not have any capital or operating loss carryforwards. Periods still subject to IRS audit include 2021 through current year. There are currently no open tax exams. As of September 30, 2024 a significant portion of the Company's net deferred tax asset relates to unrealized losses on fixed income securities.

**8. EMPLOYEE BENEFITS****ESOP**

In connection with our conversion and public offering, we established an ESOP. The ESOP borrowed from the Company to purchase 350,000 shares in the offering. The issuance of the shares to the ESOP resulted in a contra account established in the equity section of the balance sheet for the unallocated shares at an amount equal to their \$10.00 per share purchase price.

The Company may make discretionary contributions to the ESOP and pay dividends on unallocated shares to the ESOP. ICC makes annual contributions to the ESOP sufficient to repay the loan. When loan payments are made, ESOP shares are allocated to participants based on relative compensation. The Company repurchases shares from participants that have left our employment. ICC Holdings did not contribute to the ESOP for the nine months ended September 30, 2024 and 2023. No other contributions were made to the ESOP during these time periods.

A compensation expense charge is booked monthly during each year for the shares committed to be allocated to participants that year, determined with reference to the fair market value of our stock at the time the commitment to allocate the shares is accrued and recognized. For the nine months ended September 30, 2024, we recognized compensation expense of \$ 325,979 related to 17,546 shares of our common stock that are committed to be released to participants' accounts at September 30, 2024. For the nine months ended September 30, 2023, we recognized compensation expense of \$279,912 related to 17,530 shares of our common stock that were committed to be released to participants' accounts at December 31, 2023.

**RESTRICTED STOCK UNITS**

Restricted stock units (RSUs) were granted for the first time in February 2018 and more recently in April of each year. RSUs have a grant date value equal to the closing price of the Company's stock on the dates the shares are granted. The RSUs vest one third over three years beginning the first anniversary of the date of grant. The Company recognized \$ 290,943 and \$172,253 in RSU expense for the nine months ended September 30, 2024 and September 30, 2023, respectfully.

	RSUs	Weighted Average Grant Date Fair Value
Nonvested on December 31, 2023	19,787	\$ 15.87
Granted	20,100	16.00
Vested	(18,229)	15.96
Nonvested on September 30, 2024	21,658	\$ 15.92

**9. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through the date the financial statements were issued.

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

The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a safe harbor for forward-looking statements made by or on behalf of ICC Holdings, Inc. ICC Holdings, Inc., and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in ICC Holdings, Inc.'s filings with the Securities and Exchange Commission (SEC) and its reports to shareholders. Generally, the inclusion of the words "anticipates," "believes," "estimate," "expect," "future," "intend," "may," "plans," "seek," "will," or the negative of such terms and similar expressions identify statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and that are intended to come within the safe harbor protection provided by those sections. All statements addressing operating performance, events, or developments that ICC Holdings, Inc. expects or anticipates will occur in the future, including statements relating to sales growth, earnings or earnings per share growth, and market share, as well as statements expressing optimism or pessimism about future operating results, are forward-looking statements within the meaning of the Reform Act. The forward-looking statements are and will be based on management's then-current beliefs and assumptions regarding future events and operating performance and on information currently available to management and are applicable only as of the dates of such statements.

Forward-looking statements involve risks, uncertainties, and assumptions, including, among other things, the factors discussed under the heading "Item 1A. Risk Factors" of ICC Holdings, Inc.'s Annual Report on Form 10-K and those listed below. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. Actual results may differ materially from those expressed in these forward-looking statements due to several uncertainties and risks, including the risks described in this Quarterly Report on Form 10-Q and other unforeseen risks. Readers should not put undue reliance on any forward-looking statements. These statements speak only as of the date of this Quarterly Report on Form 10-Q, even if subsequently made available by us on our website or otherwise, and we undertake no obligation to update or revise these statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.

All of these factors are difficult to predict, and many are beyond our control. These important factors include those discussed under "Item 1A. Risk Factors" of ICC Holdings, Inc.'s 2023 Annual Report on Form 10-K and those listed below:

- the potential impact of fraud, operational errors, systems malfunctions, or cybersecurity incidents;
- future economic conditions in the markets in which we compete that are less favorable than expected;
- our ability to expand geographically;
- the effects of weather-related and other catastrophic events;
- the effect of legislative, judicial, economic, demographic, and regulatory events in the jurisdictions where we do business, especially changes with respect to laws, regulations, and judicial decisions relating to liquor liability;
- our ability to enter new markets successfully and capitalize on growth opportunities either through acquisitions or the expansion of our producer network;
- the impacts of negative social media and cancel culture;
- financial market conditions, including, but not limited to, changes in interest rates and the stock markets causing a reduction of investment income or investment gains and a reduction in the value of our investment portfolio;
- heightened competition, including specifically the intensification of price competition, the entry of new competitors and the development of new products by new or existing competitors, resulting in a reduction in the demand for our products;
- a downgrade in our A.M. Best rating;
- reliance on Lloyd's of London brokers to profitably operate, share timely financial results, and maintain accurate reserves;
- the impact of acts of terrorism and acts of war;
- the effects of terrorist related insurance legislation and laws;
- changes in general economic conditions, including inflation, unemployment, interest rates, and other factors;
- the cost, availability, and collectability of reinsurance;
- estimates and adequacy of loss reserves and trends in loss and settlement expenses;
- changes in the coverage terms selected by insurance customers, including higher limits;
- our inability to obtain regulatory approval of, or to implement, premium rate increases;
- our ability to obtain reinsurance coverage at reasonable prices or on terms that adequately protect us;
- expense and reputational impact on the Company as a result of expenses related to the continuing activities of an activist shareholder;
- adverse litigation or arbitration results;
- adverse changes in applicable laws, regulations or rules governing insurance holding companies and insurance companies, and environmental, tax or accounting matters including limitations on premium levels, increases in minimum capital and reserves, other financial viability requirements, and changes that affect the cost of, or demand for our products;
- infection rates, severity of pandemics, civil unrest and their effects on our business operations and claims activity, and any adverse impact to our insureds, brokers, agents, and employees;
- our debt and debt service requirements which may restrict our operation and financial flexibility, as well as imposing unfavorable interest and financing costs;
- our ability to maintain our existing credit facilities or obtain satisfactory new credit facilities or other borrowings;
- changes to our assessment as to whether it is more likely than not that we will be required to sell, or have the intent to sell, available for sale or fixed maturity investments before their anticipated recovery;
- our ability to implement business strategies, including our acquisition strategy and expansion plans;
- our acquisition strategy may not be successful in locating advantageous targets;
- our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we acquire into our operations and
- our ability to realize related revenue synergies, strategic gains, and cost savings may be significantly harder to achieve, if at all, or may take longer to achieve;
- potential goodwill impairment charges, future impairment charges, and fluctuations in the fair values of reporting units or of assets in the event projected financial results are not achieved within expected time frames;

## [Table of Contents](#)

- the potential impact on our reported net income that could result from the adoption of future auditing or accounting standards issued by the Public Company Accounting Oversight Board or the Financial Accounting Standards Board or other standard-setting bodies;
- unanticipated changes in industry trends and ratings assigned by nationally recognized rating organizations;
- litigation tactics and developments, including those related to business interruption claims;
- risks related to the conduct of our business while the merger with MCH is pending; and
- risks related to uncertainties related to the consummation of the merger with MCH.

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

All subsequent written and oral forward-looking information attributable to ICC Holdings, Inc. or any person acting on our behalf is expressly qualified in its entirety by the cautionary statement contained or referred to in this section.

### **Overview**

Illinois Casualty Company ("ICC") is a regional property and casualty insurance company incorporated in Illinois and focused exclusively on the food and beverage industry. ICC is a wholly owned subsidiary of ICC Holdings, Inc (the "Company").

For the nine months ended September 30, 2024, the Company had direct written premiums of \$76,788,000, net premiums earned of \$62,332,000, and net earnings of \$3,560,000. For the nine months ended September 30, 2023, the Company had direct premiums written of \$68,900,000, net premiums earned of \$55,529,000, and net earnings of \$1,396,000. On September 30, 2024, the Company had total assets of \$232,927,000 and equity of \$73,103,000. On December 31, 2023, the Company had total assets of \$211,017,000 and equity of \$67,004,000.

On June 8, 2024, the Company entered into an Agreement and Plan of Merger (as amended, the "Merger Agreement") with Mutual Capital Holdings, Inc., a Pennsylvania corporation (MCH), and Mutual Capital Merger Sub, Inc., a Pennsylvania corporation and a wholly owned subsidiary of MCH ("Merger Sub"). Pursuant to the Merger Agreement and subject to the satisfaction or waiver of the conditions set forth therein, Merger Sub will be merged with and into the Company, with the Company continuing as the surviving corporation and a wholly owned subsidiary of MCH (the "Merger"). As a result of the Merger, each issued and outstanding share of the Company's common stock, par value \$0.01 per share (the "Company Common Stock") (other than shares owned by the Company as treasury stock), will be converted into the right to receive \$23.50 in cash, without interest, representing a total equity value of approximately \$73.8 million. The closing of the Merger is subject to certain conditions, including (i) the approval and adoption of the Merger Agreement by the holders of the Company Common Stock, (ii) the receipt of authorizations required to be obtained from applicable insurance regulators, and (iii) other customary conditions. For each of the Company and MCH, the obligation to complete the Merger is also subject to the accuracy of the representations and warranties of, and compliance with covenants by, the other party, in accordance with the materiality standards set forth in the Merger Agreement. For a description of the treatment of equity awards under the Merger Agreement, see the Company's definitive proxy statement on Schedule 14A filed with the Securities and Exchange Commission (the "SEC") on October 28, 2024.

### **Principal Revenue and Expense Items**

We derive our revenue primarily from premiums earned, net investment income, and net realized and unrealized gains (losses) from investments.

#### *Gross and net premiums written*

Gross premiums written are equal to direct and assumed premiums before the effect of ceded reinsurance. Net premiums written is the difference between gross premiums written and premiums ceded or paid to reinsurers (ceded premiums written).

### *Net premiums earned*

Premiums earned are the earned portion of our net premiums written. Gross premiums written include all premiums recorded by an insurance company during a specified policy period. Insurance premiums on property and casualty insurance contracts are recognized in proportion to the underlying risk insured and are earned ratably over the duration of the policies. At the end of each accounting period, the portion of the premiums that are not yet earned is included in unearned premiums and is realized as revenue in subsequent periods over the remaining term of the policy. Our policies typically have a term of twelve months. Thus, for example, for a policy that is written on July 1, 2024, one-half of the premiums would be earned in 2024 and the other half would be earned in 2025.

### *Net investment income and net realized gains (losses) on investments*

We invest our surplus and the funds supporting our insurance liabilities (including unearned premiums and unpaid loss and loss adjustment expenses) in cash, cash equivalents, equities, fixed securities, and real estate. Investment income includes interest and dividends earned on invested assets as well as rental income on investment properties. Net realized gains and losses on invested assets are reported separately from net investment income. We recognize realized gains when invested assets are sold for an amount greater than their cost or amortized cost (in the case of fixed securities) and recognize realized losses when investment securities are written down as a result of an impairment when sold or sold for an amount less than their cost or amortized cost, as applicable. We recognize in earnings the change in unrealized gains and losses on equity securities and limited partnership investments, excluding fixed income securities, when our investments are trading at an amount greater than or less than their cost, respectively. Net unrealized gains on investments in net earnings for the three and nine months ended September 30, 2024 were \$534,000 and \$1,595,000, respectively. Net unrealized (losses) gains for the three and nine months ended September 30, 2023 for investments in net earnings were losses of \$837,000 and gains of \$269,000, respectively. Our portfolio of investment securities is managed by two independent third parties with managers specializing in the insurance industry. The board of directors' investment committee is responsible for establishing investment policies and monitoring risk limits and tolerances. We seek to protect customers' benefits by optimizing the risk/return relationship on an ongoing basis, avoiding high levels of investments that may be redeemed by the issuer, maintaining sufficiently liquid investments, and avoiding undue asset concentrations through diversification. We are exposed to two primary sources of investment risk:

- credit risk, relating to the uncertainty associated with the continued ability of an obligor to make timely payments of principal and interest; and
- interest rate risk, relating to the market price and/or cash flow variability associated with changes in market yield curves.

Our ability to manage credit risk is essential to our business and our profitability. We devote considerable resources to the credit analysis of each new investment. We manage credit risk through industry, issuer, and asset class diversification.

ICC's expenses consist primarily of:

### *Losses and settlement expenses*

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

### *Amortization of deferred policy acquisition costs and other operating expenses*

Expenses incurred to underwrite risks are referred to as policy acquisition expenses. Variable policy acquisition costs consist of commission expenses, premium taxes, and certain other underwriting expenses that vary with and are primarily related to the writing and acquisition of new and renewal business. These policy acquisition costs are deferred and amortized over the effective period of the related insurance policies. Fixed policy acquisition costs are expensed as incurred. These costs include salaries, rent, office supplies, and depreciation. Other operating expenses consist primarily of information technology costs, accounting, and employee compensation, as well as audit and legal expenses.

### *Income taxes*

We use the asset and liability method of accounting for income taxes. Deferred income taxes arise from the recognition of temporary differences between financial statement carrying amounts and the tax bases of our assets and liabilities. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. The effect of a change in tax rates is recognized in the period of the enactment date.

## **Key Financial Measures**

We evaluate our insurance operations by monitoring certain key measures of growth and profitability. In addition to reviewing our financial performance based on results determined in accordance with generally accepted accounting principles in the United States (GAAP), we utilize certain operational financial measures that we believe are valuable in managing our business and for comparison to our peers. These operational measures are combined ratio, written premiums, underwriting income, the losses and settlement expense ratio, the expense ratio, the ratio of net written premiums to statutory surplus, and return on average equity.

We measure growth by monitoring changes in gross premiums written and net premiums written. We measure underwriting profitability by examining losses and settlement expense, underwriting expense, and combined ratios. We also measure profitability by examining underwriting income (loss) and net earnings (loss).



*Losses and settlement expense ratio*

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

*Expense ratio*

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

*GAAP combined ratio*

Our GAAP combined ratio is the sum of the losses and settlement expense ratio and the expense ratio and measures our overall underwriting profit. If the GAAP combined ratio is below 100%, we are making an underwriting profit. If our combined ratio is at or above 100%, we are not profitable without investment income and may not be profitable if investment income is insufficient.

*Net premiums written to statutory surplus ratio*

The net premiums written to statutory surplus ratio represents the ratio of net premiums written, after reinsurance ceded, to statutory surplus. This ratio measures our exposure to pricing errors in our current book of business. The higher the ratio, the greater the impact on surplus should pricing prove inadequate.

*Underwriting income (loss)*

Underwriting income (loss) measures the pre-tax profitability of our insurance operations. It is derived by subtracting losses and settlement expense, amortization of deferred policy acquisition costs, and underwriting and administrative expenses from net earned premiums. Each of these items is presented as a caption in our statements of earnings.

*Net earnings (loss) and return on average equity*

We use net earnings (loss) to measure our profit and return on average equity to measure our effectiveness in utilizing equity to generate net earnings. In determining return on average equity for a given year, net earnings (loss) is divided by the average of the beginning and ending equity for that year.

**Critical Accounting Policies**

The accounting policies and estimates considered by management to be critically important in the preparation and understanding of the Company's financial statements and related disclosures are presented in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

**Results of Operations**

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

Our premium and underwriting results have been, and continue to be, influenced by market conditions. Pricing in the property and casualty insurance industry historically has been cyclical. During a soft market cycle, price competition is more significant than during a hard market cycle and makes it difficult to attract and retain properly priced commercial business. A hard market typically has a positive effect on premium growth.

**The following summarizes our results for the nine months ended September 30, 2024 and 2023:**

*Premiums*

Direct premiums written increased by \$7,888,000, or 11.4%, to \$76,788,000 for the nine months ended September 30, 2024 from \$68,900,000 for the same period of 2023. Net written premium increased by \$5,178,000, or 8.5%, to \$66,348,000 for the nine months ended September 30, 2024 from \$61,170,000 for the same period in 2023. Net premiums earned increased by \$6,803,000, or 12.3%, for the nine months ended September 30, 2024 as compared to the nine months ended September 30, 2023, consistent with our increased premium writings in 2024.

For the nine months ended September 30, 2024, we ceded to reinsurers \$10,515,000 of earned premiums, compared to \$8,066,000 of earned premiums for the nine months ended September 30, 2023. Ceded earned premiums as a percent of direct premiums written increased to 13.7% from 11.7% for the nine months ended September 30, 2024 as compared to the nine months ended September 30, 2023 as a result of increased direct earned premiums and the addition of a ceding allowance on the first excess reinsurance contracts.

Premiums are earned ratably over the term of the policy whereas written premiums are reflected on the effective date of the policy.

*Investment Income*

Net investment income increased by \$739,000, or 19.5%, to \$4,537,000 for the nine months ended September 30, 2024, as compared to \$3,798,000 for the same period in 2023. This increase is the result of reinvestment of fixed income securities at higher effective interest rates than securities matured or disposed of.

*Other*

Other is derived from policies we write and represents additional charges to policyholders for services outside of the premium charge, such as installment billing or policy issuance costs. Other decreased by \$115,000, or 71.4%, during the nine months ended September 30, 2024 as compared to the same period in 2023 due to decreased Katkin sales.

*Unpaid Losses and Settlement Expenses*

	For the Nine-Months Ended September 30,	
	2024	2023
(In thousands)		
Unpaid losses and settlement expense - beginning of the period:		
Gross	\$ 71,920	\$ 67,614
Less: Ceded	12,737	13,610
Less: CECL allowance for reinsurance recoverable on unpaid losses	82	—
Net	59,101	54,004
Increase in incurred losses and settlement expense:		
Current year	32,866	33,333
Prior years	8,168	3,366
Total incurred	41,034	36,699
Deduct: Loss and settlement expense payments for claims incurred:		
Current year	8,410	9,045
Prior years	20,743	17,581
Total paid	29,153	26,626
Net unpaid losses and settlement expense - end of the period	70,982	64,077
Plus: Reinsurance recoverable on unpaid losses net of CECL	12,520	16,350
Plus: CECL allowance for reinsurance recoverable on unpaid losses <sup>1</sup>	80	115
Gross unpaid losses and settlement expense - end of the period	\$ 83,582	\$ 80,542

Gross unpaid losses and settlement expenses increased by \$11,662,000, or 16.2%, in the nine months ended September 30, 2024 as compared to December 31, 2023. For the nine months ended September 30, 2024 and 2023, we experienced unfavorable development of \$8,168,000 and \$3,366,000, respectively. The current year development is primarily due to additional information received on prior year accident claims for Liquor Liability.

### *Losses and Settlement Expenses*

Losses and settlement expenses increased by \$4,335,000, or 11.8%, to \$41,034,000 for the nine months ended September 30, 2024, from \$36,699,000 for the same period in 2023. The loss and settlement expense ratio decreased by 0.3% to 65.8% for the nine months ended September 30, 2024, from 66.1% for the same period in 2023. The increase in losses and settlement expenses was driven by increased Liquor Liability claims. The ratio decreased as Businessowner's Property claims decreased relative to net earned premium. In addition, claim frequency by product in 2024 has decreased 0.4% to 5.4% despite policies in-force growing.

### *Policy Acquisition Costs and Other Operating Expenses and the Expense Ratio*

Policy acquisition costs are costs we incur to issue policies, which include commissions, premium taxes, underwriting reports, and underwriter compensation costs. The Company offsets the direct commissions it pays with ceded commissions it receives from reinsurers. Other operating expenses consist primarily of information technology costs, accounting, and internal control salaries, as well as audit and legal expenses. Policy acquisition costs and other operating expenses increased by \$2,223,000, or 10.7%, to \$23,047,000 for the nine months ended September 30, 2024 from \$20,824,000 for the same period in 2023. The increase in these expenses is mainly due to increases in legal, consulting, and commissions. Legal and consulting expenses are up \$1,000,000 due to the pending merger and past proxy contest. Commissions increased as a result of higher written premiums.

Our expense ratio is calculated by dividing the sum of policy acquisition costs and operating expenses by net earned premiums. We use the expense ratio to evaluate the operating efficiency of our consolidated operations. Costs that cannot be readily identifiable as a direct cost of a product line remain in general corporate expenses.

Our expense ratio decreased by 50 basis points from 37.5% to 37.0% for the nine months ended September 30, 2024 as compared to the same period in 2023.

### *General Corporate Expenses*

General corporate expenses consist primarily of occupancy costs, such as rent and utilities. These costs are largely fixed and, therefore, do not vary significantly with premium volume but do vary with the Company's changes in properties held for investment. In addition, CECL expense is recorded here. Our general corporate expenses increased by \$255,000, or 41.4%, for the nine months ended September 30, 2024 as compared to the same period in 2023. This increase is due to increased current expected credit losses related to two new Other Invested Assets in 2024.

### *Interest Expense*

Interest expense remained the same at \$138,000 for the nine months ended September 30, 2024 and September 30, 2023.

### *Income Tax Expense*

We reported income tax expense of \$985,000 and \$363,000 for the nine months ended September 30, 2024 and 2023, respectively. The increase in income tax expense in 2024 was primarily due to unrealized gains on investments and the associated deferred tax expense recognized. Our effective tax rate for the nine months ended September 30, 2024 was 21.7%, compared to 20.6% for the same period in 2023. Effective rates are dependent upon components of pretax earnings and losses and the related tax effects.

The Company has not established a valuation allowance against any of the net deferred tax assets.

**The following summarizes our results for the three months ended September 30, 2024 and 2023:**

*Premiums*

Direct premiums written increased by \$3,167,000, or 12.9%, to \$27,662,000 for the three months ended September 30, 2024 from \$24,495,000 for the same period of 2023. Net written premium increased by \$2,533,000, or 11.7%, to \$24,218,000 for the three months ended September 30, 2024 from \$21,685,000 for the same period in 2023. Net premiums earned increased by \$2,477,000, or 12.9%, for the three months ended September 30, 2024 as compared to the three months ended September 30, 2023, consistent with our increased premium writings in 2024.

For the three months ended September 30, 2024, we ceded to reinsurers \$3,479,000 of earned premiums, compared to \$2,878,000 of earned premiums for the three months ended September 30, 2023. Ceded earned premiums as a percent of direct premiums written increased to 12.6% from 11.8% for the three months ended September 30, 2024 as compared to the three months ended September 30, 2023 as a result of increased direct earned premiums and the addition of a ceding allowance on the first excess reinsurance contracts.

Premiums are earned ratably over the term of the policy whereas written premiums are reflected on the effective date of the policy.

*Investment Income*

Net investment income increased by \$215,000, or 16.0%, to \$1,557,000 for the three months ended September 30, 2024, as compared to \$1,342,000 for the same period in 2023. This increase is the result of reinvestment of fixed income securities at higher effective interest rates than securities matured or disposed.

*Other*

Other is derived from policies we write and represents additional charges to policyholders for services outside of the premium charge, such as installment billing or policy issuance costs. Other increased by \$5,000, or 9.8%, during the three months ended September 30, 2024 as compared to the same period in 2023.

### *Losses and Settlement Expenses*

Losses and settlement expenses increased by \$708,000, or 5.3%, to \$14,144,000 for the three months ended September 30, 2024, from \$13,436,000 for the same period in 2023. The loss and settlement expense ratio decreased by 4.8% to 65.1% for the three months ended September 30, 2024, from 69.9% for the same period in 2023. The increase in losses and settlement expenses was driven by increased Businessowner's Liability claims. The ratio decreased as Businessowner's Property claims decreased relative to net earned premium. In addition, claim frequency by product in 2024 has decreased 0.4% to 5.4% despite policies in-force growing.

### *Policy Acquisition Costs and Other Operating Expenses and the Expense Ratio*

Policy acquisition costs are costs we incur to issue policies, which include commissions, premium taxes, underwriting reports, and underwriter compensation costs. The Company offsets the direct commissions it pays with ceded commissions it receives from reinsurers. Other operating expenses consist primarily of information technology costs, accounting, and internal control salaries, as well as audit and legal expenses. Policy acquisition costs and other operating expenses increased by \$273,000, or 3.9%, to \$7,302,000 for the three months ended September 30, 2024 from \$7,029,000 for the same period in 2023.

Our expense ratio is calculated by dividing the sum of policy acquisition costs and operating expenses by net earned premiums. We use the expense ratio to evaluate the operating efficiency of our consolidated operations. Costs that cannot be readily identifiable as a direct cost of a product line remain in general corporate expenses.

Our expense ratio decreased by 290 basis points from 36.5% to 33.6% for the three months ended September 30, 2024 as compared to the same period in 2023. The main driver of this decrease is contingent commissions to net earned premiums, which are down 2.35%, or 235 basis points.

### *General Corporate Expenses*

General corporate expenses consist primarily of occupancy costs, such as rent and utilities. These costs are largely fixed and, therefore, do not vary significantly with premium volume but do vary with the Company's changes in properties held for investment. In addition, CECL expense is recorded here. Our general corporate expenses increased by \$44,000, or 20.0%, for the three months ended September 30, 2024 as compared to the same period in 2023.

### *Interest Expense*

Interest expense remained unchanged at \$46,000 for the three months ended September 30, 2024 from \$46,000 for the same period during 2023 .

### *Income Tax Expense*

We reported income tax expense of \$567,000 and a benefit of \$199,000 for the three months ended September 30, 2024 and 2023, respectively. The increase in income tax expense in 2024 was primarily due to unrealized gains on investments and the associated deferred tax expense recognized. Our effective tax rate for the three months ended September 30, 2024 was 21.6%, compared to 20.5% for the same period in 2023. Effective rates are dependent upon components of pretax earnings and losses and the related tax effects.

The Company has not established a valuation allowance against any of the net deferred tax assets.

## Financial Position

The following summarizes our financial position as of September 30, 2024 and December 31, 2023:

### Unpaid Losses and Settlement Expense

Our reserves for unpaid losses and settlement expense are summarized below:

	As of September 30, 2024	As of December 31, 2023
(In thousands)		
Case reserves	\$ 39,885	\$ 29,718
IBNR reserves	31,097	29,383
Net unpaid losses and settlement expense	70,982	59,101
Reinsurance recoverables, excluding CECL allowance	12,600	12,819
Reserves for unpaid loss and settlement expense	<u>\$ 83,582</u>	<u>\$ 71,920</u>

### Actuarial Ranges

The selection of the ultimate loss is based on information unique to each line of business and accident year and the judgment and expertise of our actuary and management.

The following table provides case and IBNR reserves for losses and loss adjustment expenses as of September 30, 2024 and December 31, 2023.

### As of September 30, 2024

(In thousands)	Case Reserves	IBNR Reserves	Total Reserves
Commercial liability	\$ 33,405	\$ 30,008	\$ 63,413
Property	3,045	(778)	2,267
Other	3,435	1,867	5,302
Total net reserves	39,885	31,097	70,982
Reinsurance recoverables, excluding CECL allowance	1,676	10,924	12,600
Gross reserves	<u>\$ 41,561</u>	<u>\$ 42,021</u>	<u>\$ 83,582</u>

### As of December 31, 2023

	Case Reserves	IBNR Reserves	Total Reserves	Actuarially Determined Range of Estimates	
(In thousands)				Low	High
Commercial liability	\$ 24,286	\$ 27,184	\$ 51,470		
Property	2,715	(127)	2,588		
Other	2,717	2,326	5,043		
Total net reserves	29,718	29,383	59,101	\$ 52,617	\$ 62,912
Reinsurance recoverables	2,371	10,448	12,819	10,346	14,081
Gross reserves	<u>\$ 32,089</u>	<u>\$ 39,831</u>	<u>\$ 71,920</u>	<u>\$ 62,963</u>	<u>\$ 76,993</u>

Our actuary determined a range of reasonable reserve estimates which reflect the uncertainty inherent in the loss reserve process. This range does not represent the range of all possible outcomes. We believe that the actuarially determined ranges represent reasonably likely changes in the loss and settlement expense estimates, however actual results could differ significantly from these estimates. The range was determined by line of business and accident year after a review of the output generated by the various actuarial methods utilized. The actuary reviewed the variance around the select loss reserve estimates for each of the actuarial methods and selected reasonable low and high estimates based on his knowledge and judgment. In making these judgments the actuary typically assumed, based on his experience, that the larger the reserve the less volatility and that property reserves would exhibit less volatility than casualty reserves. In addition, when selecting these low and high estimates, the actuary considered:

- historical industry development experience in our business line;
- historical company development experience;
- the impact of court decisions on insurance coverage issues, which can impact the ultimate cost of settling claims;
- changes in our internal claims processing policies and procedures; and
- trends and risks in claim costs, such as risk that medical cost inflation could increase.

Our actuary is required to exercise a considerable degree of judgment in the evaluation of all of these and other factors in the analysis of our loss and settlement expense reserves, and related range of anticipated losses. Because of the level of uncertainty impacting the estimation process, it is reasonably possible that different actuaries would arrive at different conclusions. The method of determining the reserve range has not changed and the reserve range generated by our actuary is consistent with the observed development of our loss reserves over the last few years.

The width of the range in reserves arises primarily because specific losses may not be known and reported for some period and the ultimate losses paid and loss adjustment expenses incurred with respect to known losses may be larger than currently estimated. The ultimate frequency or severity of these claims can be very different than the assumptions we used in our estimation of ultimate reserves for these exposures.

Specifically, the following factors could impact the frequency and severity of claims, and therefore, the ultimate amount of loss and settlement expense paid:

- the rate of increase in labor costs, medical costs, and material costs that underlie insured risks;
- development of risk associated with our expanding producer relationships and our growth in new states or states where we currently have small market share; and
- impact of changes in laws or regulations.

The estimation process for determining the liability for unpaid loss and settlement expense inherently results in adjustments each year for claims incurred (but not paid) in preceding years. Negative amounts reported for claims incurred related to prior years are a result of claims being settled for amounts less than originally estimated (favorable development). Positive amounts reported for claims incurred related to prior years are a result of claims being settled for amounts greater than originally estimated (unfavorable development). For the nine months ended September 30, 2024 and 2023, we experienced unfavorable development of \$8,168,000 and \$3,366,000, respectively.

The potential for variability in our reserves is evidenced by this development. As a further illustration of reserve variability, we previously estimated unpaid loss and settlement expense net of reinsurance at the end of 2023 at \$59,101,000. As of September 30, 2024, that reserve was re-estimated at \$67,269,000, which is \$8,168,000 higher than the previous estimate. This increase was largely driven by several motor vehicle related claims in accident years 2022, 2021, and 2020.

The estimation of our reserves is based on several actuarial methods, each of which incorporates many quantitative assumptions. The judgment of the actuary plays an important role in selecting among various loss development factors and selecting the appropriate method, or combination of methods, to use for a given accident year.

#### *Investments*

Our investments are primarily composed of fixed maturity debt securities and both common and preferred stock equity securities. We categorize all our debt securities as available-for-sale (AFS), which are carried at fair value as determined by management based upon quoted market prices when available. If a quoted market price is not available, fair value is estimated using a secondary pricing source or using quoted market prices of similar securities. Changes in unrealized investment gains or losses on our AFS securities, net of applicable income taxes, are reflected directly in equity as a component of comprehensive earnings (loss) and, accordingly, have no effect on net earnings (loss). Equity securities and the limited partnership are carried at fair value with subsequent changes in fair value recorded in net earnings (loss). Other invested assets include notes receivable, stock, a SAFE investment, Funds at Lloyd's, and membership in the FHLBC. Notes receivable are carried at outstanding balance plus accrued interest, which management believes reflects fair value. The Funds at Lloyd's, the SAFE investment, and the membership in FHLBC are carried at cost. Investment income is recognized when earned, and capital gains and losses are recognized when investments are sold, or credit loss has occurred.

Effective with the adoption of ASU 2016-13, Financial Instruments—Credit Losses, on January 1, 2023, we consider several factors, including, but not limited to, the following when evaluating whether a decline in value for AFS debt securities relates to credit losses:

- the extent to which fair value is less than amortized cost;
- adverse conditions related to the security, an industry, geographic area such as changes in the financial condition of the issuer of the security, changes in technology, or discontinuation of a segment of the business that may affect future earnings potential;
- the payment structure of the debt security and the likelihood of the issuer being able to make future payments;
- failure of the issuer of the security to make scheduled interest or principal payments; and
- any changes to the rating of the security by a rating agency.

In addition, we no longer consider the duration of the decline in value in assessing whether our fixed income securities available for sale have a credit loss impairment. If a credit loss is determined to exist, the credit loss impairment is recognized as a credit loss expense in the statement of operations with an offset to an allowance for credit losses. Subsequent changes (favorable and unfavorable) in expected credit losses are recognized immediately in net income as a credit loss expense or a reversal of credit loss expense. Credit losses are limited to the amount by which the amortized cost of the security exceeds fair value. The Company and its independent investment managers evaluated our available-for-sale securities and determined that as of December 31, 2023 and September 30, 2024, there were no securities for which an allowance for credit losses adjustment was needed.

The fair value and unrealized losses for our securities that were temporarily impaired are as follows:

	September 30, 2024					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury	\$ —	\$ —	\$ 1,326,055	\$ (24,963)	\$ 1,326,055	\$ (24,963)
MBS/ABS/CMBS	505,082	(233)	19,582,844	(1,924,024)	20,087,926	(1,924,257)
Corporate	—	—	28,991,279	(2,336,523)	28,991,279	(2,336,523)
Municipal	776,030	(711)	12,544,802	(2,870,293)	13,320,832	(2,871,004)
Redeemable preferred stock	22,910	(95)	106,096	(3,329)	129,006	(3,424)
Total temporarily impaired fixed maturity securities	<u>\$ 1,304,022</u>	<u>\$ (1,039)</u>	<u>\$ 62,551,076</u>	<u>\$ (7,159,132)</u>	<u>\$ 63,855,098</u>	<u>\$ (7,160,171)</u>

  

	December 31, 2023					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury	\$ —	\$ —	\$ 1,289,774	\$ (61,994)	\$ 1,289,774	\$ (61,994)
MBS/ABS/CMBS	8,345,340	(116,670)	24,323,865	(2,546,987)	32,669,205	(2,663,657)
Corporate	477,051	(1,319)	33,352,754	(3,068,867)	33,829,805	(3,070,186)
Municipal	—	—	12,149,238	(3,293,146)	12,149,238	(3,293,146)
Redeemable preferred stock	149,240	(12,309)	21,320	(3,524)	170,560	(15,833)
Total temporarily impaired fixed maturity securities	<u>\$ 8,971,631</u>	<u>\$ (130,298)</u>	<u>\$ 71,136,951</u>	<u>\$ (8,974,518)</u>	<u>\$ 80,108,582</u>	<u>\$ (9,104,816)</u>

#### Corporate Bonds

The gross unrealized losses in the corporate bond portfolio decreased by about \$0.7 million from a loss of \$3,070,186 at the end of 2023 to a loss of \$2,336,523 as of September 30, 2024. This was driven by the movement in Treasury rates. The Treasury yield curve has shifted significantly lower over Q3 which has caused bond prices across fixed income sectors to rise. Additionally, the corporate bond portfolio has benefitted from further spread tightening in Q3 (corporate spreads are now tighter by about 20 bps from the beginning of 2024).

#### Municipal Bonds

The gross unrealized losses in the municipal portfolio decreased by about \$0.4 million from a loss of \$3,293,146 at the end of 2023 to a loss of \$2,871,004 as of September 30, 2024. This was driven by the movement in Treasury rates. The Treasury yield curve has shifted significantly lower over Q3 which has caused bond prices across fixed income sectors to rise. The municipal bond portfolio has benefitted by spread tightening so far in 2024 (taxable municipal spreads were mostly unchanged for Q3 but are tighter by about 13 bps from the beginning of 2024).

We screen the portfolio for securities that hit certain thresholds and review those securities for potential impairment. The thresholds vary by sector. For corporates, as an example, we screen for any holding that has a market price below \$75 and a spread greater than the average spread of the BB Corporate index. For preferred stocks, we screen for securities that have an unrealized loss of more than 30% of book value. For structured securities, we use more quantitative analysis, including a discounted cash-flow model to measure the amount by which the present value of expected future cash flows is below the asset's amortized cost. When assessing whether the fair value of the security will be recovered, we may compare the present value of the cash flows likely to be collected, based on an evaluation of all available information relevant to the collectability of the security, to the amortized cost basis of the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is referred to as the "credit loss." If there is a credit loss, the impairment is other-than-temporary. Under the new guidance for AFS debt securities, if we identify that there is a credit risk, an allowance for credit losses (ACL) will be recorded in earnings. Any remaining portion of unrealized losses related to the noncredit-related component will continue to be recognized in other comprehensive income (loss), net of tax. If we determine that we intend to sell the security, or that it is more likely than not that we will be required to sell the security prior to recovering its amortized cost basis less any current-period credit losses, the prior allowance would be removed, and the amortized cost basis would be adjusted to fair value.



## [Table of Contents](#)

For the nine months ended September 30, 2024, the Company did not take a credit loss or impairment charge on any of its fixed income security holdings. Adverse investment market conditions, or poor operating results of underlying investments, could result in credit losses or impairment charges in the future.

We use quoted values and other data provided by independent pricing services in our process for determining fair values of our investments. The evaluations of such pricing services represent an exit price and a good faith opinion as to what a buyer in the marketplace would pay for a security in a current sale. This pricing service provides us with one quote per instrument. For fixed maturity securities that have quoted prices in active markets, market quotations are provided. For fixed maturity securities that do not trade daily, 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 our independent pricing service utilizes may include (listed in order of priority for use) benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, market bids/offers, and other reference data on markets, industry, and the economy. Additionally, the independent pricing service uses an option adjusted spread model to develop prepayment and interest rate scenarios. The pricing service did not use broker quotes in determining the fair values of our investments.

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 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 maturity security, we use that estimate. In instances where we can obtain fair value estimates from more than one broker-dealer, we would review the range of estimates and would 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, we would classify such a security as a Level 3 investment.

The fair value estimates of our investments provided by the independent pricing service at September 30, 2024 and December 31, 2023, respectively, were utilized, among other resources, in reaching a conclusion as to the fair value of our investments.

Our investment manager reviews the reasonableness of the pricing provided by the vendors they use and have pricing policy and procedures that are SSAE audited. Each month-end, they review 1) securities priced beyond a specific tolerance % from the prior month-end, 2) securities priced beyond a specific tolerance % from the prior two month-ends, 3) securities with valuations resulting in negative yields, and 4) securities deemed as outliers. Our investment manager reviews the aforementioned securities either to affirm that the valuations are appropriate or determine that a change to a different approved vendor is more appropriate based on current market information. The classification within the fair value hierarchy of Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement, is then confirmed based on the final conclusions from the pricing review. On a quarterly basis, our investment manager provides a Price Validation report that measures the variance between trades our investment manager executed during the quarter and the vendor's pricing. Management reviews the Price Validation report from the investment manager quarterly to check the reasonableness of the investment managers vendor pricing procedures.

### *Deferred Policy Acquisition Costs*

Certain acquisition costs consisting of direct and ceded commissions, premium taxes and certain other direct underwriting expenses that vary with and are primarily related to the production of business are deferred and amortized over the effective period of the related insurance policies as the underlying policy premiums are earned. On September 30, 2024 and December 31, 2023, deferred acquisition costs and the related unearned premium reserves were as follows:

(In thousands)	September 30, 2024	December 31, 2023
Deferred acquisition costs, net	\$ 9,178	\$ 8,552
Unearned premium reserves, net	50,521	46,505

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

### *Income Taxes*

We use the asset and liability method of accounting for income taxes. Deferred income taxes arise from the recognition of temporary differences between financial statement carrying amounts and the tax bases of our assets and liabilities. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. The effect of a change in tax rates is recognized in the period of the enactment date.

## [Table of Contents](#)

We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record an additional valuation allowance against our deferred tax assets.

As of September 30, 2024 and December 31, 2023, we had no material unrecognized tax benefits or accrued interest and penalties. Federal tax years 2021 through the current year are open for examination.

### *Other Assets*

As of September 30, 2024 and December 31, 2023, other assets totaled \$2,520,000 and \$2,406,000, respectively. Other assets includes intangibles, cash value of officer life insurance, and prepaids.

### *Outstanding Debt*

The Company had \$15,000,000 in outstanding debt, as of September 30, 2024 and December 31, 2023.

The Company also has borrowing capacity of \$53.1 million with the Federal Home Loan Bank of Chicago (FHLBC), which is 25% of net admitted statutory assets of Illinois Casualty Company as of the prior year-end. As of September 30, 2024, the Company has used \$15.0 million of that capacity through three separate 5-year term loans expiring between 2025 and 2027, with a weighted average interest rate of 1.21%. One loan for \$6.0 million with a 1.4% interest rate expires on March 18, 2025.

The Company has \$18.9 million in bonds pledged as collateral for all FHLBC loans.

### *Revolving Line of Credit*

As of September 30, 2024, the balance on the line of credit was \$0. As of the July 5, 2024 renewal, this line of credit is priced at prime plus 0.54% with a floor of 6.00% and renews annually with a current expiration date of July 5, 2025. The Company has \$4.0 million of available credit and has pledged \$4.0 million of business assets in the event the Company draws down on the line of credit. This agreement includes an annually calculated financial debt covenant requiring a minimum total adjusted capital of \$21.0 million. Total adjusted capital is the sum of an insurer's statutory capital and surplus as determined in accordance with the statutory accounting principles applicable to the annual financial statements required to be filed with Illinois Department of Insurance. There was no interest paid on the line of credit during the nine months ended September 30, 2024 and 2023.

### *Other Liabilities*

As of September 30, 2024 and December 31, 2023, other liabilities totaled \$1,229,000 and \$1,259,000, respectively. Other liabilities includes advance premiums and amounts withheld.

## ESOP

In connection with our conversion and public offering, the ESOP financed the purchase of 10.0% of the common stock issued in the offering for \$3,500,000 with the proceeds of a loan from ICC prior to the expiration of the offering. ICC makes annual contributions to the ESOP sufficient to repay that loan. See *Note 8 – Employee Benefits* of this Form 10-Q as well as the “Management — Benefit Plans and Employment Agreements —Employee Stock Ownership Plan” section of the Company’s Annual Report on Form 10-K for the year ended December 31, 2023.

## Stock-based Incentive Plan

Under the ICC Holdings, Inc. 2016 Equity Incentive Plan, we reserved for issuance a total of 490,000 shares of common stock. Of this amount, 350,000 shares of common stock may be granted in the form of restricted stock and stock-settled restricted stock unit awards, and 140,000 shares of common stock may be granted in the form of stock options under the stock-based incentive plan. The grant-date fair value of any common stock used for restricted stock and restricted stock unit awards will represent unearned compensation. As we accrue compensation expense to reflect the vesting of such shares, unearned compensation will be reduced accordingly. We compute compensation expense at the time stock units are awarded based on the fair value of such options on the date they are granted. This compensation expense is recognized over the appropriate service period. Restricted stock units (RSUs) have been granted every year since 2018 and most recently in April 2024. The RSUs vest one third over three years from the first anniversary of the date of grant. See *Note 8 – Employee Benefits* of this Form 10-Q as well as the “Management — Benefit Plans and Employment Agreements” section of the Company’s 2023 Annual Report on Form 10-K.

## Liquidity and Capital Resources

We generate sufficient funds from our operations and maintain a high degree of liquidity in our 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. We participate in the Insured Cash Sweep (ICS) with our local bank, which maintains our operating accounts. ICS ensures that our funds are spread throughout the ICS network and no balance is higher than \$250,000 each night so that all our funds are fully insured.

Cash provided by operating activities increased by \$5.4 million during the nine months ended September 30, 2024 compared to the same period in 2023. This increase was due to increases in premiums and reinsurance balances receivable and reinsurance balances recoverable offset by decreases in unpaid losses and settlement expenses and unearned premiums.

We maintain investment and reinsurance programs that are intended to provide sufficient funds to meet our obligations without forced sales of investments. We maintain a portion of our investment portfolio in relatively short-term and highly liquid assets to ensure the availability of funds.

In addition to the investment and reinsurance programs mentioned, we have access to cash via the Federal Home Loan Bank of Chicago of \$48.2 million. We have drawn down \$15.0 million as of September 30, 2024. We also have a \$4.0 million line of credit with a local financial institution. As of September 30, 2024, our balance on the line of credit was \$0.

As of September 30, 2024, we have cash and other investments maturing within one year of \$25.5 million and an additional \$47.4 million maturing between one and five years.

ICC is a limited partner of Mutual Capital Investment Fund (“MCIF”), which is an affiliate of MCH. MCH has advised the Company that MCIF will be providing funding for a portion of the aggregate Merger Consideration and, accordingly, ICC will receive a capital call in connection with the foregoing funding obligation, which is expected to be approximately \$1.6 million.

One FHLBC loan for \$6.0 million with a 1.4% interest rate expires on March 18, 2025 and will be repaid at that time. The maturity of this note is the main reason we are retaining additional cash and cash equivalents at September 30, 2024. We are earning nearly the same interest on the cash and cash equivalents as we would with fixed maturity securities.

We believe that over the next twelve to twenty-four months our cash generated from operations and investments will provide sufficient sources of liquidity to meet our needs. The actual timing of gross loss and loss adjustment expense payments is unknown and therefore our timing estimates are based on historical experience and the expectations of future payment patterns. In the event our cash from operations and investments are not sufficient, we believe our cash available from financing activities will be sufficient to cover our cash flow needs.

Cash flows from continuing operations for the nine months ended September 30, 2024 and 2023 were as follows:

(In thousands)	Nine-Months Ended September 30,	
	2024	2023
Net cash provided by operating activities	\$ 16,027	\$ 10,622
Net cash used in investing activities	(6,303)	(10,701)
Net cash used in financing activities	(191)	(396)
Net increase (decrease) in cash and cash equivalents	\$ 9,533	\$ (475)

ICC Holdings, Inc.’s principal source of liquidity is dividend payments and other fees received from ICC, Beverage Insurance Agency Inc., Katkin, and Two Rivers Realty Investments. ICC is restricted by the insurance laws of Illinois as to the amount of dividends or other distributions it may pay to us. Under Illinois law, there is a maximum amount that may be paid by ICC during any twelve-month period. ICC may pay dividends to us after notice to, but without prior approval of the Illinois Department of Insurance in an amount “not to exceed” the greater of (i) 10% of the surplus as regards policyholders of ICC as reported on its most recent annual statement filed with the Illinois Department of Insurance, or (ii) the statutory net income of ICC for the period covered by such annual statement. Dividends in excess of this amount are considered “extraordinary” and are subject to the approval of the Illinois Department of Insurance.

The amount available for payment of dividends from ICC in 2024 without the prior approval of the Illinois Department of Insurance is approximately \$6.3 million based upon the insurance company’s 2023 annual statement. Prior to its payment of any dividend, ICC is required to provide notice of the dividend to the Illinois Department of Insurance. This notice must be provided to the Illinois Department of Insurance 30 days prior to the payment of an extraordinary dividend and 10 days prior to the payment of an ordinary dividend. The Illinois Department of Insurance has the power to limit or prohibit dividend payments if ICC is in violation of any law or regulation. These restrictions or any subsequently imposed restrictions may affect our future liquidity. ICC paid \$900,000 and \$1,250,000 in dividends to ICC Holdings, Inc. in the first nine months of 2024 and 2023. The estimated transaction costs related to the merger are substantial and may require an additional dividend from ICC this year.

### Item 3. Quantitative and Qualitative Information about Market Risk

#### Market Risk

Market risk is the risk that we will incur losses due to adverse changes in the fair value of financial instruments. We have exposure to three principal types of market risk through our investment activities: interest rate risk, credit risk, and equity risk. Our primary market risk exposure is to changes in interest rates. We have not entered, and do not plan to enter, into any derivative financial instruments for hedging, trading, or speculative purposes.

#### Interest Rate Risk

Interest rate risk is the risk that we will incur economic losses due to adverse changes in interest rates. Our exposure to interest rate changes primarily results from our significant holdings of fixed rate investments. Fluctuations in interest rates have a direct impact on the fair value of these securities.

The average maturity of the debt securities in our investment portfolio was 8.2 and 8.6 years as of September 30, 2024 and 2023, respectively. Our debt securities investments include U.S. government bonds, securities issued by government agencies, obligations of state and local governments and governmental authorities, and corporate bonds, most of which are exposed to changes in prevailing interest rates, and which may experience moderate fluctuations in fair value resulting from changes in interest rates. We carry these investments as available-for-sale. This allows us to manage our exposure to risks associated with interest rate fluctuations through active review of our investment portfolio by our management and board of directors and consultation with our third-party investment manager.

Fluctuations in near-term interest rates could have an impact on the results of operations and cash flows. Certain of these securities may have call features. In a declining interest rate environment these securities may be called by their issuer and replaced with securities bearing lower interest rates. If we are required to sell these securities in a rising interest rate environment, we may recognize losses.

As a general matter, we attempt to match the durations of our assets with the durations of our liabilities. Our investment objectives include maintaining adequate liquidity to meet our operational needs, optimizing our after-tax investment income, and our after-tax total return, all of which are subject to our tolerance for risk.

The table below shows the interest rate sensitivity of our fixed maturity investments measured in terms of fair value (which is equal to the carrying value for all our investment securities that are subject to interest rate changes):

Hypothetical Change in Interest Rates (In thousands)	September 30, 2024	
	Estimated Change in Fair Value	Fair Value
200 basis point increase	\$ (11,038)	\$ 103,706
100 basis point increase	(5,726)	109,018
No change	—	114,744
100 basis point decrease <sup>1</sup>	6,058	120,802
200 basis point decrease <sup>1</sup>	12,289	127,033

<sup>1</sup>Assumes US rates are floored at 0%.

#### Credit Risk

Credit risk is the potential economic loss principally arising from adverse changes in the financial condition of a specific debt issuer. We address this risk by investing primarily in fixed maturity securities that are rated investment grade and require the fixed income portfolio to maintain an average credit quality of A+ or better. We also independently, and through our independent third-party investment manager, monitor the financial condition of all the issuers of fixed maturity securities in the portfolio. To limit our exposure to risk, we employ diversification rules that limit the credit exposure to any single issuer or asset class.

*Equity Risk*

Equity price risk is the risk that we will incur economic losses due to adverse changes in equity prices.

**Item 4. Controls and Procedures**

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

***Disclosure Controls and Procedures***

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") that are designed to ensure that required information is recorded, processed, summarized, and reported within the required timeframe as specified in the SEC's rules and forms. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed is accumulated and communicated to the Company's management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

In connection with the preparation of this Quarterly Report on Form 10-Q, we carried out an evaluation under the supervision of and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, as of September 30, 2024, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that as of September 30, 2024, our disclosure controls and procedures were effective.

***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) identified during the third quarter of 2024 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**

There were no material changes to report.

**Item 1A. Risk Factors**

A description of the risks associated with our business, financial conditions and results of operations is set forth in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 and in Item 1A of our Quarterly Report on Form 10-Q for the period ended June 30, 2024.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**
**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table summarizes repurchases of common stock pursuant to share repurchase programs authorized by the Board of Directors.

**Purchases of Equity Securities**

<b>Date</b>	<b>Total number of shares purchased</b>	<b>Average price paid per share</b>	<b>Total number of shares purchased as part of publicly announced plans</b>	<b>Maximum number (or approximate dollar value) of shares that may be purchased under the plans or programs (1)</b>
July 1, 2024 to July 31, 2024				
Open Market Purchases	—	\$ —	—	\$ 4,455,970
August 1, 2024 to August 31, 2024				
Open Market Purchases	—	—	—	4,455,970
September 1, 2024 to September 30, 2024				
Open Market Purchases	—	—	—	4,455,970
<b>Total</b>	<b>—</b>	<b>\$ —</b>	<b>—</b>	<b>\$ 4,455,970</b>

(1) In December 2022, the Company announced the establishment of a \$5.0 million share repurchase program with no expiration date.

**Item 3. Default Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

During the quarter ended September 30, 2024, none of our directors or officers (as defined in Section 16 of the Securities Exchange Act of 1934, as amended) adopted or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement (each as defined in Item 408(a) and (c) of Regulation S-K).

**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
3.1	<a href="#">Form of Amended and Restated Articles of Incorporation of ICC Holdings, Inc. (incorporated by reference to Exhibit 3.1 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (File No. 333-214081) filed on December 23, 2016)</a>
3.2	<a href="#">Form of Amended and Restated Bylaws of ICC Holdings, Inc. (incorporated by reference to Exhibit 3.2 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (File No. 333-214081) filed on December 23, 2016)</a>
31.1	<a href="#">Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1	<a href="#">Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2	<a href="#">Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101	Inline XBRL (iXBRL) Documents attached as Exhibit 101
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 14, 2024.

ICC HOLDINGS, INC.

By: /s/ Arron K. Sutherland  
Arron K. Sutherland  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

By: /s/ Michael R. Smith  
Michael R. Smith  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

## CHIEF EXECUTIVE OFFICER'S 302 CERTIFICATION

I, Arron K. Sutherland, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ICC Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2024

/s/ Arron K. Sutherland

Arron K. Sutherland  
Chief Executive Officer  
(principal executive officer)

## CHIEF FINANCIAL OFFICER'S 302 CERTIFICATION

I, Michael R. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ICC Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2024

/s/ Michael R. Smith

Michael R. Smith

Chief Financial Officer

(principal financial officer)

**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 ICC Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Arron K. Sutherland, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2024

/s/Arron K. Sutherland

Arron K. Sutherland  
Chief Executive Officer

**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 ICC Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael R. Smith, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2024

/s/ Michael R. Smith

Michael R. Smith  
Chief Financial Officer