

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 June 30, 2020

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)

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

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

The number of shares of the registrant's common stock outstanding as of August 7, 2020 was 3,297,608.

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**PART I — FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

	As of	
	June 30, 2020 (Unaudited)	December 31, 2019
<b>Assets</b>		
Investments and cash:		
Fixed maturity securities (cost or amortized cost - \$91,837,051 at 6/30/2020 and \$88,348,415 at 12/31/2019)	\$ 97,872,904	\$ 92,087,572
Common stocks at fair value	11,702,141	14,448,773
Preferred stocks at fair value	1,555,041	—
Other invested assets	1,779,572	877,900
Property held for investment, at cost, net of accumulated depreciation of \$400,755 at 6/30/2020 and \$332,218 at 12/31/2019	5,547,594	4,353,713
Cash and cash equivalents	13,028,212	6,626,585
<b>Total investments and cash</b>	<b>131,485,464</b>	<b>118,394,543</b>
Accrued investment income	680,468	646,504
Premiums and reinsurance balances receivable, net of allowances for uncollectible amounts of \$100,000 at 6/30/2020 and 12/31/2019	25,071,888	22,368,526
Ceded unearned premiums	855,067	822,818
Reinsurance balances recoverable on unpaid losses and settlement expenses, net of allowances for uncollectible amounts of \$0 at 6/30/2020 and 12/31/2019	19,462,599	11,036,170
Federal income taxes	378,058	192,559
Deferred policy acquisition costs, net	5,486,019	5,269,256
Property and equipment, at cost, net of accumulated depreciation of \$5,818,924 at 6/30/2020 and \$5,619,706 at 12/31/2019	2,928,196	3,033,348
Other assets	2,079,915	1,239,794
<b>Total assets</b>	<b>\$ 188,427,674</b>	<b>\$ 163,003,518</b>
<b>Liabilities and Equity</b>		
<b>Liabilities:</b>		
Unpaid losses and settlement expenses	\$ 66,415,119	\$ 56,838,307
Unearned premiums	30,213,110	30,392,817
Reinsurance balances payable	1,399,861	374,998
Corporate debt	15,100,173	3,475,088
Accrued expenses	3,117,682	4,216,988
Income taxes - deferred	375,766	39,213
Other liabilities	4,637,178	1,324,273
<b>Total liabilities</b>	<b>121,258,889</b>	<b>96,661,684</b>
<b>Equity:</b>		
Common stock <sup>1</sup>	35,000	35,000
Treasury stock, at cost <sup>2</sup>	(3,019,154)	(3,146,576)
Additional paid-in capital	32,663,641	32,703,209
Accumulated other comprehensive earnings, net of tax	4,767,819	2,953,936
Retained earnings	35,417,419	36,608,750
Less: Unearned Employee Stock Ownership Plan shares at cost <sup>3</sup>	(2,695,940)	(2,812,485)
<b>Total equity</b>	<b>67,168,785</b>	<b>66,341,834</b>
<b>Total liabilities and equity</b>	<b>\$ 188,427,674</b>	<b>\$ 163,003,518</b>

<sup>1</sup>Par value \$0.01; authorized: 2020 - 10,000,000 shares and 2019 - 10,000,000 shares; issued: 2020 - 3,500,000 shares and 2019 - 3,500,000 shares; outstanding: 2020 - 3,032,686 and 2019 - 3,014,941 shares.

<sup>2</sup>2020 - 197,720 shares and 2019 - 203,811 shares

<sup>3</sup>2020 - 269,594 shares and 2019 - 281,248 shares

See accompanying notes to consolidated financial statements.

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

	For the Three-Months Ended	
	June 30,	
	2020	2019
Net premiums earned	\$ 11,374,746	\$ 13,094,222
Net investment income	908,550	800,130
Net realized investment (losses) gains	(438,619)	647,068
Net unrealized gains (losses) on equity securities	2,709,763	(116,691)
Other income	69,069	122,812
Consolidated revenues	<u>14,623,509</u>	<u>14,547,541</u>
Losses and settlement expenses	9,208,484	8,900,732
Policy acquisition costs and other operating expenses	4,254,266	4,958,594
Interest expense on debt	56,721	31,881
General corporate expenses	125,335	137,290
Total expenses	<u>13,644,806</u>	<u>14,028,497</u>
Earnings before income taxes	978,703	519,044
Total income tax expense	196,738	76,953
Net earnings	<u>\$ 781,965</u>	<u>\$ 442,091</u>
Other comprehensive earnings, net of tax	3,524,729	1,245,804
Comprehensive earnings	<u>\$ 4,306,694</u>	<u>\$ 1,687,895</u>
<b>Earnings per share:</b>		
Basic:		
Basic net earnings per share	\$ 0.26	\$ 0.15
Diluted:		
Diluted net earnings per share	\$ 0.26	\$ 0.15
<b>Weighted average number of common shares outstanding:</b>		
Basic	3,029,693	3,007,685
Diluted	3,036,116	3,010,712

See accompanying notes to consolidated financial statements

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

	For the Six-Months Ended	
	June 30,	
	2020	2019
Net premiums earned	\$ 24,388,735	\$ 25,540,136
Net investment income	1,743,950	1,595,503
Net realized investment (losses) gains	(342,987)	599,642
Net unrealized (losses) gains on equity securities	(979,584)	1,723,727
Other income	119,267	68,925
Consolidated revenues	24,929,381	29,527,933
Losses and settlement expenses	17,050,566	18,508,022
Policy acquisition costs and other operating expenses	9,019,240	9,808,780
Interest expense on debt	92,049	63,895
General corporate expenses	299,756	280,451
Total expenses	26,461,611	28,661,148
(Loss) earnings before income taxes	(1,532,230)	866,785
Total income tax (benefit) expense	(340,899)	135,946
Net (loss) earnings	\$ (1,191,331)	\$ 730,839
Other comprehensive earnings, net of tax	1,813,883	2,720,013
Comprehensive earnings	\$ 622,552	\$ 3,450,852
<b>Earnings per share:</b>		
Basic:		
Basic net (loss) earnings per share	\$ (0.39)	\$ 0.24
Diluted:		
Diluted net (loss) earnings per share	\$ (0.39)	\$ 0.24
<b>Weighted average number of common shares outstanding:</b>		
Basic	3,019,788	3,001,713
Diluted	3,026,210	3,004,739

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, 2019</b>	\$ 35,000	\$ (2,999,995)	\$ (3,046,855)	\$ 32,505,423	\$ 33,680,702	\$ (1,580,976)	\$ 58,593,299
Cumulative-effect adjustment from ASU 2016-01 <sup>1</sup>	—	—	—	—	(1,366,297)	1,366,297	—
Purchase of common stock	—	(49,130)	—	—	—	—	(49,130)
Net earnings	—	—	—	—	730,839	—	730,839
Other comprehensive earnings, net of tax	—	—	—	—	—	2,720,013	2,720,013
Restricted stock unit expense	—	—	—	48,337	—	—	48,337
ESOP compensation expense	—	—	116,222	45,613	—	—	161,835
<b>Balance, June 30, 2019</b>	<u>\$ 35,000</u>	<u>\$ (3,049,125)</u>	<u>\$ (2,930,633)</u>	<u>\$ 32,599,373</u>	<u>\$ 33,045,244</u>	<u>\$ 2,505,334</u>	<u>\$ 62,205,193</u>

<sup>1</sup>See discussion of Accounting Standards Update 2016-01 adoption in 2019 10-K, Note 1 - Summary of Significant Accounting Policies

	Common stock	Treasury stock	Unearned ESOP	Additional paid-in capital	Retained earnings	Accumulated other comprehensive earnings (loss)	Total equity
<b>Balance, January 1, 2020</b>	\$ 35,000	\$ (3,146,576)	\$ (2,812,485)	\$ 32,703,209	\$ 36,608,750	\$ 2,953,936	\$ 66,341,834
Purchase of common stock	—	(15,958)	—	—	—	—	(15,958)
Net (loss)	—	—	—	—	(1,191,331)	—	(1,191,331)
Other comprehensive earnings, net of tax	—	—	—	—	—	1,813,883	1,813,883
Restricted stock unit expense	—	143,380	—	(61,959)	—	—	81,421
ESOP compensation expense	—	—	116,545	22,391	—	—	138,936
<b>Balance, June 30, 2020</b>	<u>\$ 35,000</u>	<u>\$ (3,019,154)</u>	<u>\$ (2,695,940)</u>	<u>\$ 32,663,641</u>	<u>\$ 35,417,419</u>	<u>\$ 4,767,819</u>	<u>\$ 67,168,785</u>

See accompanying notes to consolidated financial statements.

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

	Six-Month Periods Ended June 30,	
	2020	2019
<b>Cash flows from operating activities:</b>		
Net (loss) earnings	\$ (1,191,331)	\$ 730,839
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities		
Net realized investment losses (gains)	342,987	(599,642)
Net unrealized losses (gains) on equity securities	979,584	(1,723,727)
Depreciation	338,409	401,419
Deferred income tax	(145,619)	406,991
Amortization of bond premium and discount	100,619	113,242
Stock-based compensation expense	220,357	210,172
Change in:		
Accrued investment income	(33,964)	20,634
Premiums and reinsurance balances receivable	(2,703,362)	(998,495)
Ceded unearned premiums	(32,249)	(47,584)
Reinsurance balances payable	1,024,863	(560,369)
Reinsurance balances recoverable	(8,426,429)	(7,238,050)
Deferred policy acquisition costs	(216,763)	(245,200)
Unpaid losses and settlement expenses	9,576,812	9,816,461
Unearned premiums	(179,707)	1,339,650
Accrued expenses	(1,099,306)	(1,277,407)
Current federal income tax	(185,499)	(51,929)
Other	2,404,746	(281,986)
Net cash provided by operating activities	774,148	15,019
<b>Cash flows from investing activities:</b>		
Purchases of:		
Fixed maturity securities, available-for-sale	(12,628,366)	(12,689,731)
Common stocks	(2,173,439)	(3,822,354)
Preferred stocks	(1,641,922)	—
Other invested assets	(901,500)	(113,300)
Property held for investment	(1,262,417)	(167,850)
Property and equipment	(175,151)	(202,250)
Proceeds from sales, maturities and calls of:		
Fixed maturity securities, available-for-sale	9,384,229	13,750,473
Common stocks	3,260,997	4,677,473
Preferred stocks	145,490	—
Property and equipment	10,430	5,268
Net cash (used in) provided by investing activities	(5,981,649)	1,437,729
<b>Cash flows from financing activities:</b>		
Proceeds from loans	11,629,800	—
Repayments of borrowed funds	(4,714)	(2,787)
Purchase of treasury stock	(15,958)	(49,130)
Net cash provided by (used in) financing activities	11,609,128	(51,917)
Net increase in cash and cash equivalents	6,401,627	1,400,831
Cash and cash equivalents at beginning of year	6,626,585	4,644,784
Cash and cash equivalents at end of period	\$ 13,028,212	\$ 6,045,615
<b>Supplemental information:</b>		
Federal income tax recovered	\$ —	\$ 164,543
Interest paid	82,000	31,800

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.; ICC Realty, LLC, a real estate services and holding company; Beverage Insurance Agency, Inc., a non-insurance subsidiary; Estrella Innovative Solutions, Inc., an outsourcing company; and Illinois Casualty Company (ICC), an operating insurance company. ICC is an Illinois domiciled company.

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 Colorado, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Ohio, Pennsylvania, and Wisconsin and markets through independent agents. Approximately 25.7% and 25.6% of the premium is written in Illinois for the three months ended June 30, 2020 and 2019, respectively. For the six months ended June 30, 2020 and 2019, approximately 26.1% and 27.5% of the premium is written in Illinois, respectively. The Company operates as a single segment.

#### 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, 2019 (the “2019 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 June 30, 2020, and 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

The Company reported its significant accounting policies in the 2019 10-K.

#### D. PROSPECTIVE ACCOUNTING STANDARDS

For information regarding accounting standards that the Company has not yet adopted, see the “Prospective Accounting Standards” in *Note 1 – Summary of Significant Accounting Policies* in the 2019 10-K. The Company maintains its status as an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). We have taken advantage of the extended transition period provided by Section 107 of the JOBS Act. We decided to comply with the effective dates for financial accounting standards applicable to emerging growth companies later in compliance with the requirements in Sections 107(b)(2) and (3) of the JOBS Act. Such decision is irrevocable.



**E. PROPERTY AND EQUIPMENT**

Annually, the Company reviews the major asset classes of property and equipment held for impairment. For the periods ended June 30, 2020 and 2019, the Company recognized no impairments. Property and equipment are summarized as follows:

	As of	
	June 30, 2020	December 31, 2019
Automobiles	\$ 530,722	\$ 505,788
Furniture and fixtures	469,659	457,218
Computer equipment and software	3,875,559	3,823,416
Home office	3,871,179	3,866,632
Total cost	8,747,120	8,653,054
Accumulated depreciation	(5,818,924)	(5,619,706)
Net property and equipment	<u>\$ 2,928,196</u>	<u>\$ 3,033,348</u>

**F. COMPREHENSIVE EARNINGS**

Comprehensive earnings (loss) include net (loss) earnings 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, the Company used a 21% tax rate. Other comprehensive earnings, as shown in the consolidated statements of earnings and comprehensive earnings, is net of tax expense of \$271,932 and \$636,537 for the six months ended June 30, 2020 and 2019, respectively.

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

	Six-Month Periods Ended June 30,	
	2020	2019
Beginning balance	\$ 2,953,936	\$ (1,580,976)
Cumulative effect of adoption of ASU 2016-01	-	1,366,297
Adjusted beginning balance	2,953,936	(214,679)
Other comprehensive earnings before reclassification	2,086,077	2,837,836
Amount reclassified from accumulated other comprehensive earnings	(272,194)	(117,823)
Net current period other comprehensive earnings	1,813,883	2,720,013
Ending balance	<u>\$ 4,767,819</u>	<u>\$ 2,505,334</u>

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

	Three-Month Periods Ended June 30,					
	2020			2019		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Other comprehensive earnings, net of tax						
Unrealized gains and losses on investments:						
Unrealized holding gains arising during the period	\$ 4,456,968	\$ (843,931)	\$ 3,613,037	\$ 1,576,968	\$ (224,377)	\$ 1,352,591
Reclassification adjustment for losses included in net earnings	(111,782)	23,474	(88,308)	(135,173)	28,386	(106,787)
Total other comprehensive earnings	<u>\$ 4,345,186</u>	<u>\$ (820,457)</u>	<u>\$ 3,524,729</u>	<u>\$ 1,441,795</u>	<u>\$ (195,991)</u>	<u>\$ 1,245,804</u>

	Six-Month Periods Ended June 30,					
	2020			2019		
	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 arising during the period	\$ 2,285,654	\$ (199,577)	\$ 2,086,077	\$ 3,443,053	\$ (605,217)	\$ 2,837,836
Reclassification adjustment for (gains) included in net earnings	(344,549)	72,355	(272,194)	(149,143)	31,320	(117,823)
Total other comprehensive earnings	\$ 1,941,105	\$ (127,222)	\$ 1,813,883	\$ 3,293,910	\$ (573,897)	\$ 2,720,013

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 Earnings				Affected Line Item in the Statement where Net Earnings is Presented
	Three-Month Periods Ended		Six-Month Period Ended		
	June 30,	June 30,	June 30,	June 30,	
	2020	2019	2020	2019	
Unrealized (gains) losses on AFS investments:					
	\$ (111,782)	\$ (135,173)	\$ (344,549)	\$ (149,143)	Net realized investment (gains)
	23,474	28,386	72,355	31,320	Income tax expense (benefit)
Total reclassification adjustment, net of tax	\$ (88,308)	\$ (106,787)	\$ (272,194)	\$ (117,823)	

**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. The COVID-19 pandemic has resulted in, and is expected to continue to result in, significant disruptions in economic activity and financial markets. The cumulative effects of COVID-19 on the Company, and the effect of any other public health outbreak, cannot be predicted at this time, but could reduce demand for our insurance policies, result in increased level of losses, settlement expenses or other operating costs, or reduce the market value of invested assets held by the Company.

**2. INVESTMENTS**

The Company's investments are primarily composed of fixed income debt securities and common and preferred stock 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 June 30,			
	Proceeds	Gains	Losses	Net Realized Gains (Losses)
<b>2020</b>				
Fixed maturity securities	\$ 5,581,636	\$ 111,782	\$ —	\$ 111,782
Common stocks	2,736,179	329,296	(882,526)	(553,230)
Preferred stocks	53,652	2,829	—	2,829
<b>2019</b>				
Fixed maturity securities	\$ 7,971,580	\$ 139,703	\$ (4,530)	\$ 135,173
Common stocks	4,124,060	711,524	(199,629)	511,895

	For the Six-Months Ended June 30,			
	Proceeds	Gains	Losses	Net Realized Gains (Losses)
<b>2020</b>				
Fixed maturity securities	\$ 9,384,229	\$ 345,475	\$ (926)	\$ 344,549
Common stocks	3,260,997	376,422	(1,056,025)	(679,603)
Preferred stocks	145,490	2,829	(10,762)	(7,933)
<b>2019</b>				
Fixed maturity securities	\$ 13,750,473	\$ 165,292	\$ (16,149)	\$ 149,143
Common stocks	4,677,473	775,101	(324,602)	450,499

The amortized cost and estimated fair value of fixed income securities at June 30, 2020, by contractual maturity, are shown as follows:

	Amortized Cost	Fair Value
Due in one year or less	\$ 1,225,054	\$ 1,229,164
Due after one year through five years	17,358,664	18,537,886
Due after five years through 10 years	17,113,692	19,116,349
Due after 10 years	19,869,012	21,827,971
Asset and mortgage backed securities without a specific due date	36,054,824	36,934,688
Redeemable preferred stocks	215,805	226,846
<b>Total fixed maturity securities</b>	<b>\$ 91,837,051</b>	<b>\$ 97,872,904</b>

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

The following table is a schedule of cost or amortized cost and estimated fair values of investments in securities classified as available for sale at June 30, 2020 and December 31, 2019:

	Cost or Amortized Cost	Fair Value	Gross Unrealized	
			Gains	Losses
<b>2020</b>				
Fixed maturity securities:				
U.S. Treasury	\$ 1,753,081	\$ 1,792,641	\$ 39,560	\$ —
MBS/ABS/CMBS	36,054,824	36,934,688	1,155,282	(275,418)
Corporate	37,012,131	40,877,709	3,951,611	(86,033)
Municipal	16,801,210	18,041,020	1,253,021	(13,211)
Redeemable preferred stock	215,805	226,846	11,041	—
<b>Total fixed maturity securities</b>	<b>\$ 91,837,051</b>	<b>\$ 97,872,904</b>	<b>\$ 6,410,515</b>	<b>\$ (374,662)</b>
<b>2019</b>				
Fixed maturity securities:				
U.S. Treasury	\$ 800,462	\$ 800,219	\$ 684	\$ (927)
MBS/ABS/CMBS	33,802,911	34,290,995	540,743	(52,659)
Corporate	39,442,202	41,915,103	2,482,378	(9,477)
Municipal	14,302,840	15,081,255	808,081	(29,666)
<b>Total fixed maturity securities</b>	<b>\$ 88,348,415</b>	<b>\$ 92,087,572</b>	<b>\$ 3,831,886</b>	<b>\$ (92,729)</b>

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 residential mortgage backed securities with fair values of \$11,790,074 and \$9,909,462 and commercial mortgage backed securities of \$13,679,490 and \$13,408,898 at June 30, 2020 and December 31, 2019, respectively.

## ANALYSIS

The following tables are also used as part of the impairment analysis and displays the total value of securities that were in an unrealized loss position as of June 30, 2020 and December 31, 2019. The tables segregate the securities based on type, noting the fair value, cost or amortized cost, and unrealized loss on each category of investment as well as in total. The table further classifies the securities based on the length of time they have been in an unrealized loss position.

	June 30, 2020			December 31, 2019		
	< 12 Months	12 Months & Greater	Total	< 12 Months	12 Months & Greater	Total
<b>Fixed Maturity Securities:</b>						
<b>U.S. Treasury</b>						
Fair value	\$ —	\$ —	\$ —	\$ —	\$ 699,391	\$ 699,391
Amortized cost	—	—	—	—	700,318	700,318
Unrealized loss	—	—	—	—	(927)	(927)
<b>MBS/ABS/CMBS</b>						
Fair value	7,535,981	1,983,734	9,519,715	6,398,581	5,056,732	11,455,313
Amortized cost	7,751,022	2,044,111	9,795,133	6,420,488	5,087,484	11,507,972
Unrealized loss	(215,041)	(60,377)	(275,418)	(21,907)	(30,752)	(52,659)
<b>Corporate</b>						
Fair value	1,657,745	—	1,657,745	1,396,706	—	1,396,706
Amortized cost	1,743,778	—	1,743,778	1,406,183	—	1,406,183
Unrealized loss	(86,033)	—	(86,033)	(9,477)	—	(9,477)
<b>Municipal</b>						
Fair value	496,110	—	496,110	1,969,468	—	1,969,468
Amortized cost	509,321	—	509,321	1,999,134	—	1,999,134
Unrealized loss	(13,211)	—	(13,211)	(29,666)	—	(29,666)
<b>Total</b>						
Fair value	9,689,836	1,983,734	11,673,570	9,764,755	5,756,123	15,520,878
Amortized cost	10,004,121	2,044,111	12,048,232	9,825,805	5,787,802	15,613,607
Unrealized loss	\$ (314,285)	\$ (60,377)	\$ (374,662)	\$ (61,050)	\$ (31,679)	\$ (92,729)

The fixed income portfolio contained 26 securities in an unrealized loss position as of June 30, 2020. Of these 26 securities, 4 have been in an unrealized loss position for 12 consecutive months or longer and represent \$60,377 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. 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 other-than-temporary impairment losses recognized in net earnings during the first six months ended June 30, 2020. For all fixed income securities at a loss at June 30, 2020, management believes it is probable that the Company will receive all contractual payments in the form of principal and interest. 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. The fixed income securities in an unrealized loss position were not other-than-temporarily impaired at June 30, 2020 and December 31, 2019.

## UNREALIZED GAINS AND LOSSES ON EQUITY SECURITIES

Net unrealized gains (losses) for the three and six months ended June 30, 2020 for equity securities held as of June 30, 2020 were \$2,709,763 and \$(979,584), respectively. Net unrealized (losses) gains for the three and six months ended June 30, 2019 for equity securities held as of June 30, 2019 were \$(116,691) and \$1,723,727, respectively.

## Other Invested Assets

Other invested assets include membership in the Federal Home Loan Bank of Chicago (FHLBC), which occurred in February 2018. Our investment in FHLBC stock is carried at cost. Due to the nature of our membership in the FHLBC, the carrying amount approximates fair value.

In addition, other invested assets include privately held investments of \$305,000, and notes issued for \$625,000 and \$650,000 on July 30, 2019 and January 28, 2020, respectively. Both notes bear interest at 6.5% and are amortized over 20 years with a balloon payment due July 30, 2029.

### 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 and cash equivalents, their carrying amounts are reasonable estimates of fair value. Other invested assets as well as debt obligations are carried at face value and given that there is no readily available market for these to trade in, management believes that face value accurately reflects fair value.

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Assets measured at fair value on a recurring basis as of June 30, 2020, are summarized below:

	Quoted in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>AFS securities</b>				
Fixed maturity securities				
U.S. treasury	\$ 1,792,641	\$ —	\$ —	\$ 1,792,641
MBS/ABS/CMBS	—	36,934,688	—	36,934,688
Corporate	—	40,877,709	—	40,877,709
Municipal	—	18,041,020	—	18,041,020
Redeemable preferred stocks	—	226,846	—	226,846
Total fixed maturity securities	1,792,641	96,080,263	—	97,872,904
Equity securities				
Common stocks	11,702,141	—	—	11,702,141
Perpetual preferred stocks	—	1,555,041	—	1,555,041
Total equity securities	11,702,141	1,555,041	—	13,257,182
<b>Total marketable investments measured at fair value</b>	<b>\$ 13,494,782</b>	<b>\$ 97,635,304</b>	<b>\$ —</b>	<b>\$ 111,130,086</b>

Assets measured at fair value on a recurring basis as of December 31, 2019, are summarized below:

	Quoted in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>AFS securities</b>				
Fixed maturity securities				
U.S. treasury	\$ 800,219	\$ —	\$ —	\$ 800,219
MBS/ABS/CMBS	—	34,290,995	—	34,290,995
Corporate	—	41,915,103	—	41,915,103
Municipal	—	15,081,255	—	15,081,255
Total fixed maturity securities	800,219	91,287,353	—	92,087,572
Equity securities				
Common stocks	14,448,773	—	—	14,448,773
<b>Total marketable investments measured at fair value</b>	<b>\$ 15,248,992</b>	<b>\$ 91,287,353</b>	<b>\$ —</b>	<b>\$ 106,536,345</b>

As noted in the previous tables, the Company did not have any assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of June 30, 2020 and December 31, 2019. Additionally, there were no securities transferred in or out of Levels 1 or 2 during the six-month periods ended June 30, 2020 and 2019.

#### **4. DEBT**

##### **Debt Obligation**

ICC Holdings, Inc. secured a loan with American Bank & Trust in March 2017 in the amount of \$3,500,000 and used the proceeds to repay ICC for the money borrowed by the ESOP. The term of the loan is five years bearing interest at 3.65%. The Company pledged stock and \$1.0 million of marketable assets as collateral for the loan.

The Company also has borrowing capacity up to approximately \$33 million in the aggregate from its membership with FHLBC.

In March 2020, the World Health Organization declared a pandemic related to the rapidly spreading coronavirus (COVID-19) outbreak, which has led to a global health emergency. As part of the Company's response to COVID-19, the Company obtained in March 2020 a \$6.0 million loan from the FHLBC as a precautionary measure to increase its cash position and compensate for potential reductions in premium receivable collections. The term of the loan is five years bearing interest at 1.4%. The Company pledged \$6.8 million of fixed income securities as collateral for this loan. The Company also obtained in May 2020 a \$4.0 million 0% interest, one-year loan from the FHLBC as an additional precautionary measure to increase its cash position and compensate for potential reductions in premium receivable collections as a result of the Company's announcement in March 2020 to temporarily suspend all insurance premium billing for 30 days. The Company pledged an additional \$7.4 million of fixed income securities as collateral for both FHLBC loans.

In April 2020, the Company obtained a \$1.6 million loan (the PPP loan) from a commercial bank pursuant to the federally authorized Paycheck Protection Program (Program) administered by the Small Business Administration (the SBA). The PPP loan matures in the second quarter of 2022 and bears interest at a rate of 1.0% per annum. Commencing the fourth quarter of 2020, we will begin making loan payments. All or a portion of the PPP loan may be forgiven by the SBA upon application by us beginning 60 days, but not later than 120 days, after loan approval and upon documentation of expenditures in accordance with the SBA's requirements. Under the Paycheck Protection Program Flexibility Act of 2020 (the PPP Flexibility Act), (i) the first payment date for the PPP loan will be the earlier of (a) 10 months after the end of the "covered period" (as determined under the Program) or (b) the date the bank receives a remittance of the forgiven amount from the SBA, and (ii) the PPP loan's maturity is extended to five years (from 2 years). The Company plans to apply for loan forgiveness in the third quarter of 2020 prior to making its first scheduled loan payment in the fourth quarter of 2020.

The total balance of the debt agreements at June 30, 2020 and December 31, 2019 was \$15,100,173 and \$3,475,088, respectively. The average interest rate on remaining debt was 1.5% as of June 30, 2020 and 3.7% as of December 31, 2019.

On July 30, 2020, the Company secured through FHLBC a fixed 0.74% borrowing rate for a future \$4.0 million loan that becomes effective May 3, 2021, upon the maturity of the existing \$4.0 million FHLBC loan. No collateral was pledged for this forward advance.

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

We maintain a revolving line of credit with American Bank & Trust, which permits borrowing up to an aggregate principal amount of \$1.75 million. This facility was initially entered into during 2013 and is expiring August 5, 2020. The line of credit is priced at 30-day LIBOR plus 2% with a floor of 3.5%. In order to secure the lowest rate possible, the Company pledged marketable securities not to exceed \$5.0 million in the event the Company draws down on the line of credit. There was no interest paid on the line of credit during the six months ended June 30, 2020 and 2019. There are no financial covenants governing this agreement.

Effective August 3, 2020, the Company replaced its expiring line of credit with a \$2.0 million revolving line of credit with Quad City Bank & Trust which renews annually and has a current expiration date of August 3, 2021. This new line of credit is priced at Prime plus 0.5%. The Company pledged \$2.0 million of business assets in the event the Company draws down on the line of credit. There are no financial covenants governing this agreement.

**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 business, \$500,000 for property, and \$500,000 for workers' compensation, 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:

	<u>Three-Month Periods Ended June 30,</u>	
	2020	2019
<b>WRITTEN</b>		
Direct	\$ 14,911,845	\$ 16,785,541
Reinsurance assumed	25,839	63,111
Reinsurance ceded	(3,215,430)	(2,485,245)
Net	<u>\$ 11,722,254</u>	<u>\$ 14,363,407</u>
<b>EARNED</b>		
Direct	\$ 14,521,350	\$ 15,465,164
Reinsurance assumed	20,347	54,348
Reinsurance ceded	(3,166,951)	(2,425,290)
Net	<u>\$ 11,374,746</u>	<u>\$ 13,094,222</u>
<b>LOSS AND SETTLEMENT EXPENSES INCURRED</b>		
Direct	\$ 18,072,820	\$ 10,027,809
Reinsurance assumed	11,818	36,895
Reinsurance ceded	(8,876,154)	(1,163,972)
Net	<u>\$ 9,208,484</u>	<u>\$ 8,900,732</u>

	<u>Six-Month Periods Ended June 30,</u>	
	2020	2019
<b>WRITTEN</b>		
Direct	\$ 29,706,379	\$ 32,044,244
Reinsurance assumed	63,373	108,246
Reinsurance ceded	(5,592,974)	(5,320,288)
Net	<u>\$ 24,176,778</u>	<u>\$ 26,832,202</u>
<b>EARNED</b>		
Direct	\$ 29,884,164	\$ 30,703,119
Reinsurance assumed	65,296	109,721
Reinsurance ceded	(5,560,725)	(5,272,704)
Net	<u>\$ 24,388,735</u>	<u>\$ 25,540,136</u>
<b>LOSSES AND SETTLEMENT EXPENSES INCURRED</b>		
Direct	\$ 26,834,499	\$ 24,744,162
Reinsurance assumed	38,336	83,201
Reinsurance ceded	(9,822,269)	(6,319,341)
Net	<u>\$ 17,050,566</u>	<u>\$ 18,508,022</u>



**6. UNPAID LOSSES AND SETTLEMENT EXPENSES**

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

<i>(In thousands)</i>	For the Three-Months Ended June 30,	
	2020	2019
Unpaid losses and settlement expense - beginning of the period:		
Gross	\$ 58,274	\$ 61,017
Less: Ceded	11,318	15,109
Net	46,956	45,908
Increase in incurred losses and settlement expense:		
Current year	8,294	8,328
Prior years	914	573
Total incurred	9,208	8,901
Deduct: Loss and settlement expense payments for claims incurred:		
Current year	4,444	2,799
Prior years	4,768	4,720
Total paid	9,212	7,519
Net unpaid losses and settlement expense - end of the period	46,952	47,290
Plus: Reinsurance recoverable on unpaid losses	19,463	13,974
Gross unpaid losses and settlement expense - end of the period	\$ 66,415	\$ 61,264

<i>(In thousands)</i>	For the Six-Months Ended June 30,	
	2020	2019
Unpaid losses and settlement expense - beginning of the period:		
Gross	\$ 56,838	\$ 51,447
Less: Ceded	11,036	6,736
Net	45,802	44,711
Increase in incurred losses and settlement expense:		
Current year	14,540	16,687
Prior years	2,511	1,821
Total incurred	17,051	18,508
Deduct: Loss and settlement expense payments for claims incurred:		
Current year	5,649	4,391
Prior years	10,252	11,538
Total paid	15,901	15,929
Net unpaid losses and settlement expense - end of the period	46,952	47,290
Plus: Reinsurance recoverable on unpaid losses	19,463	13,974
Gross unpaid losses and settlement expense - end of the period	\$ 66,415	\$ 61,264

Net unpaid losses and settlement expense decreased \$338,000, or 0.7%, in the six months ended June 30, 2020 as compared to the same period in 2019. For the six months ended June 30, 2020 and 2019, we experienced unfavorable development of \$2,511,000 and \$1,821,000, respectively. The increase in unfavorable development for the three and six months ended June 30, 2020 was primarily driven by the Business Owners Liability and Business Owners Property lines of business. Business Owners Liability and Liquor Liability lines of business were the primary drivers of adverse development for the three and six months ended June 30, 2019.

**7. INCOME TAXES**

The Company's effective tax rate for the three and six-month periods ended June 30, 2020, were 20.1% and 22.2%, respectively compared to 14.8% and 15.7% for the same periods in 2019, respectively. Effective rates are dependent upon components of pretax earnings and the related tax effects.

Income tax expense for the three and six month periods ended June 30, 2020 and 2019, 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 tables:

	For the Three-Months Ended	
	June 30,	
	2020	2019
Provision for income taxes at the statutory federal tax rates	\$ 205,528	\$ 108,999
Increase (reduction) in taxes resulting from:		
Dividends received deduction	(7,161)	(9,764)
Tax-exempt interest income	(15,784)	(20,650)
Proration of tax-exempt interest and dividends received deduction	5,600	7,604
Nondeductible expenses	8,725	8,959
Officer life insurance, net	(170)	(18,195)
Total	\$ 196,738	\$ 76,953

	For the Six-Months Ended	
	June 30,	
	2020	2019
Provision for income taxes at the statutory federal tax rates	\$ (321,768)	\$ 182,025
Increase (reduction) in taxes resulting from:		
Dividends received deduction	(13,696)	(19,527)
Tax-exempt interest income	(31,264)	(43,816)
Proration of tax-exempt interest and dividends received deduction	10,968	15,836
Nondeductible expenses	14,228	16,046
Officer life insurance, net	633	(14,618)
Total	\$ (340,899)	\$ 135,946

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 June 30, 2020 and December 31, 2019, the Company does not have any capital or operating loss carryforwards. Periods still subject to IRS audit include 2016 through current year. There are currently no open tax exams.

## **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. No contributions to the ESOP were made during the six months ended June 30, 2020 and 2019, respectively.

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 six months ended June 30, 2020, we recognized compensation expense of \$138,936 related to 11,654 shares of our common stock that are committed to be released to participants' accounts at December 31, 2020. Of the 11,654 shares committed to be released, 1,921 shares were committed on June 30, 2020 and had no impact on the weighted average common shares outstanding for the six months ended June 30, 2020. For the six months ended June 30, 2019, we recognized compensation expense of \$161,835 related to 11,622 shares of our common stock that were committed to be released to participants' accounts at December 31, 2019. Of the 11,622 shares committed to be released at December 31, 2019, 1,926 shares were committed on June 30, 2019 and had no impact on the weighted average common shares outstanding for the three and six months ended June 30, 2019.

### **RESTRICTED STOCK UNITS**

Restricted stock units (RSUs) were granted for the first time in February 2018 with additional RSUs granted in March 2019 and April 2020. 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 1/3 over three years from the date of grant.

As of June 30, 2020, 18,040, 13,071, and 11,700 RSUs have been granted at a fair market value of \$11.03, \$13.70, and \$15.10, respectively. We recognized \$81,421 and \$48,337 of expense on these units in the six months ended June 30, 2020 and June 30, 2019, respectively. Total unrecognized compensation expense relating to outstanding and unvested RSUs was \$314,526 as of June 30, 2020, which will be recognized over the remainder of the three-year vesting periods.

## **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," "believe," "estimate," "expect," "future," "intend," "estimate," "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 2019 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, including those related to health emergencies and the spread of infectious diseases and pandemics;
- 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;
- 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;
- 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;
- 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;
- adverse litigation or arbitration results;
- litigation tactics and developments, including those related to business interruption claims; and
- 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, and other financial viability requirements, and changes that affect the cost of, or demand for our products.

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

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.

In the following discussion and analysis of results of operations and financial condition, certain financial measures may be considered “non-GAAP financial measures” under Securities and Exchange Commission rules. These rules require supplemental explanation and reconciliation, which is provided in this Quarterly Report on Form 10-Q. Management uses the non-GAAP measures “losses and settlement expense ratio”, “expense ratio” and “combined ratio” in its evaluation of business and financial performance. These disclosures have limitations as an analytical tool, should not be viewed as a substitute for net earnings determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of the Company’s results as reported under GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Management believes that this non-GAAP supplemental information is helpful in understanding the Company’s ongoing operating results.

## Overview

ICC is a regional property and casualty insurance company incorporated in Illinois and focused exclusively on the food and beverage industry. On the effective date of the mutual-to-public company conversion, ICC became a wholly owned subsidiary of ICC Holdings, Inc.

For the six months ended June 30, 2020, we had direct written premiums of \$29,706,000, net premiums earned of \$24,389,000, and net loss of \$1,191,000. For the six months ended June 30, 2019, we had direct premiums written of \$32,044,000, net premiums earned of \$25,540,000, and net earnings of \$731,000. At June 30, 2020, we had total assets of \$188,428,000 and equity of \$67,169,000. At December 31, 2019, we had total assets of \$163,004,000 and equity of \$66,342,000. In response to the ongoing novel coronavirus (COVID-19) pandemic, on March 30, 2020, we announced that we would be temporarily suspending all insurance premium billing for at least 30 days. As of August 10, 2020, normal billing has resumed in all states we operate in.

We are an “emerging growth company” as defined in the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies” including, but not limited to: not required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act; reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements; exemptions from the requirements of holding an annual non-binding advisory vote on executive compensation and nonbinding stockholder approval of any golden parachute payments not previously approved.

In addition, Section 107 of the JOBS Act also provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an “emerging growth company” can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have taken advantage of the extended transition period provided by Section 107 of the JOBS Act. We decided to comply with the effective dates for financial accounting standards applicable to emerging growth companies later in compliance with the requirements in Sections 107(b)(2) and (3) of the JOBS Act. Such decision is irrevocable.

## 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 is 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 is 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 is 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, 2020, one-half of the premiums would be earned in 2020 and the other half would be earned in 2021.

*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 maturity 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 maturity securities) and recognize realized losses when investment securities are written down as a result of an other than temporary impairment or sold for an amount less than their cost or amortized cost, as applicable. We recognize in earnings the change in unrealized gains and losses on equity securities when our equity securities are trading at an amount greater than or less than their cost, respectively. Unrealized gains (losses) for the three and six months ended June 30, 2020 for equity securities held as of June 30, 2020 were \$2,710,000 and \$(980,000), respectively. Unrealized (losses) gains for the three and six months ended June 30, 2019 for equity securities held as of June 30, 2019 were \$(117,000) and \$1,724,000, respectively. Our portfolio of investment securities is managed by two independent third parties with managers specializing in the insurance industry.

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 internal control salaries, 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 non-GAAP financial measures that we believe are valuable in managing our business and for comparison to our peers. These non-GAAP 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).

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### *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 loss and settlement expense 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, 2019.

## **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. In response to the ongoing novel coronavirus (COVID-19) pandemic, in March 2020, we announced that we would be temporarily suspending all insurance premium billing for 30 days. As of August 10, 2020 normal billing has resumed in all states we operate in.

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.

**Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019**

The major components of operating revenues and net earnings are as follows:

(In thousands)	For the Six-Months Ended June 30,	
	2020	2019
<b>Revenues</b>		
Total premiums earned	\$ 24,389	\$ 25,540
Investment income, net of investment expense	1,744	1,596
Realized investment gains (losses), net	(343)	600
Net unrealized (losses) gains on equity securities	(980)	1,724
Other income	119	69
Total revenues	\$ 24,929	\$ 29,529
<b>Summarized components of net earnings</b>		
Underwriting (loss) <sup>1</sup>	\$ (1,681)	\$ (2,777)
Investment income, net of investment expense	1,744	1,596
Realized investment (losses) gains, net	(343)	600
Net unrealized (losses) gains on equity securities	(980)	1,724
Other income	119	69
General corporate expenses	299	281
Interest expense	92	64
(Loss) earnings, before income taxes	(1,532)	867
Income tax (benefit) expense	(341)	136
Net (loss) earnings	\$ (1,191)	\$ 731
Total other comprehensive earnings	1,814	2,720
Comprehensive earnings	\$ 623	\$ 3,451

<sup>1</sup>Calculated by subtracting the sum of loss and settlement expenses (2020 -\$17,051 and 2019 -\$18,508) and policy and acquisition costs and other operating expenses (2020 - \$9,019 and 2019 - \$9,809) from net premiums earned (2020 -\$24,389 and 2019 - \$25,540).

	For the Six-Months Ended June 30,	
	2020	2019
<b>Non-GAAP Ratios:</b>		
Losses and settlement expense ratio <sup>1</sup>	69.91%	72.47%
Expense ratio <sup>2</sup>	36.98%	38.41%
Combined ratio <sup>3</sup>	106.89%	110.88%

<sup>1</sup>Calculated by dividing loss and settlement expenses by net premiums earned.

<sup>2</sup>Calculated by dividing the sum of policy acquisition costs and operating expenses by net earned premiums.

<sup>3</sup>The sum of the losses and settlement expense ratio and the expense ratio. A combined ratio of under 100% indicates an underwriting profit. A combined ratio over 100% indicates an underwriting loss.

The following summarizes our results for the six months ended June 30, 2020 and 2019:

*Premiums*

Direct premiums written decreased by \$2,338,000, or 7.3%, to \$29,706,000 for the six months ended June 30, 2020 from \$32,044,000 for the same period of 2019. Net written premium decreased by \$2,656,000, or 9.9%, to \$24,176,000 for the six months ended June 30, 2020 from \$26,832,000 for the same period in 2019. Net premiums earned decreased by \$1,151,000, or 4.5%, in the six months ended June 30, 2020 as compared to the six months ended June 30, 2019, primarily due to policy exposure decreases resulting from state mandated shutdowns of restaurants and taverns and increased reinstatement costs associated with the civil unrest and protests occurring in Minneapolis, MN and the greater Chicago area in Illinois.



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For the six months ended June 30, 2020, we ceded to reinsurers \$5,561,000 of earned premiums, compared to \$5,273,000 of earned premiums for the six months ended June 30, 2019. Ceded earned premiums as a percent of direct premiums written increased to 18.7% from 16.5% for the six months ended June 30, 2020 and June 30, 2019, respectfully, primarily due to increased reinstatement premium costs associated with the civil unrest and protests occurring in Minnesota and Illinois.

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

### *Other Income*

Other income 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 income increased by \$50,000 or 72.5% during the six months ended June 30, 2020 as a result of a decrease in audit premiums, which resulted in fewer write offs as compared to the same period in 2019.

### *Unpaid Losses and Settlement Expenses*

The following table details our unpaid losses and settlement expenses.

<i>(In thousands)</i>	For the Six-Months Ended	
	June 30,	
	2020	2019
Unpaid losses and settlement expense - beginning of the period:		
Gross	\$ 56,838	\$ 51,447
Less: Ceded	11,036	6,736
Net	45,802	44,711
Increase in incurred losses and settlement expense:		
Current year	14,540	16,687
Prior years	2,511	1,821
Total incurred	17,051	18,508
Deduct: Loss and settlement expense payments for claims incurred:		
Current year	5,649	4,391
Prior years	10,252	11,538
Total paid	15,901	15,929
Net unpaid losses and settlement expense - end of the period	46,952	47,290
Plus: Reinsurance recoverable on unpaid losses	19,463	13,974
Gross unpaid losses and settlement expense - end of the period	\$ 66,415	\$ 61,264

Net unpaid losses and settlement expense decreased \$338,000, or 0.7%, in the six months ended June 30, 2020 as compared to the same period in 2019. For the six months ended June 30, 2020 and 2019, we experienced unfavorable development of \$2,511,000 and \$1,821,000, respectively. The 2020 increase in unfavorable development was primarily driven by the Business Owners Liability and Business Owners Property lines of business. Business Owners Liability and Liquor Liability lines of business were the primary drivers of adverse development for the six months ended June 30, 2019.

### *Losses and Settlement Expenses*

Losses and settlement expenses decreased by \$1,457,000, or 7.9%, to \$17,051,000 for the six months ended June 30, 2020, from \$18,508,000 for the same period in 2019. Losses and settlement expenses decreased for the six months ended June 30, 2020, primarily due to decreased exposures due to state mandated shutdowns for restaurants and taverns and offset by increased exposure related to the civil unrest and rioting that occurred in Minnesota and Illinois in late May and early June of 2020.

### *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 decreased by

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\$790,000, or 8.1%, to \$9,019,000 for the six months ended June 30, 2020 from \$9,809,000 for the same period in 2019 due to decreased premium writings coupled with a corresponding decrease in contingent commission expense.

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 Corporate and Other.

Our expense ratio decreased by 143 basis points from 38.41% to 36.98% for the six months ended June 30, 2020 as compared to 2019. This change was driven by a decrease in contingent commission expense caused by reduced premium writings in 2020.

### *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. Our general corporate expenses increased by \$18,000, or 6.4%, in the six months ended June 30, 2020 as compared to the same period in 2019.

### *Investment Income*

Net investment income increased by \$148,000, or 9.3%, to \$1,744,000 for the June 30, 2020, as compared to \$1,596,000 for the same period in 2019 as a result of our increased invested assets.

### *Interest Expense*

Interest expense increased slightly to \$92,000 for the six months ended June 30, 2020 from \$64,000 for the same period during 2019. This increase is primarily due to \$25,000 in interest expense for the \$6 million FHLBC borrowing in March 2020.

### *Income Tax Expense*

We reported income tax benefit of \$341,000 and income tax expense of \$136,000 for the six months ended June 30, 2020 and 2019, respectively. The increase in income tax benefit in 2020 relates to a pretax loss for the six months ended June 30, 2020 compared to pretax earnings for the same period in 2019. Our effective tax rate for the six months ended June 30, 2020 was 22.2%, compared to 15.7% for the same period in 2019. Effective rates are dependent upon components of pretax (loss) or earnings and the related tax effects.

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

**Three Months Ended June 30, 2020 Compared to Three Months Ended June 30, 2019**

The major components of operating revenues and net earnings are as follows:

(In thousands)	For the Three-Months Ended June 30,	
	2020	2019
<b>Revenues</b>		
Total premiums earned	\$ 11,375	\$ 13,094
Investment income, net of investment expense	909	801
Realized investment (losses) gains, net	(439)	647
Net unrealized gains (losses) on equity securities	2,709	(117)
Other income	69	123
Total revenues	\$ 14,623	\$ 14,548
<b>Summarized components of net earnings (loss)</b>		
Underwriting (loss) <sup>1</sup>	\$ (2,087)	\$ (766)
Investment income, net of investment expense	909	801
Realized investment (losses) gains, net	(439)	647
Net unrealized gains (losses) on equity securities	2,709	(117)
Other income	69	123
General corporate expenses	125	137
Interest expense	57	32
Earnings, before income taxes	979	519
Income tax expense	197	77
Net earnings	\$ 782	\$ 442
Total other comprehensive earnings	3,525	1,246
Comprehensive earnings	\$ 4,307	\$ 1,688

<sup>1</sup>Calculated by subtracting the sum of loss and settlement expenses (2020 - \$9,208 and 2019 - \$8,901) and policy and acquisition costs and other operating expenses (2020 - \$4,254 and 2019 - \$4,959) from net premiums earned (2020 - \$11,375 and 2019 - \$13,094).

	For the Three-Months Ended June 30,	
	2020	2019
<b>Non-GAAP Ratios:</b>		
Losses and settlement expense ratio <sup>1</sup>	80.95%	67.98%
Expense ratio <sup>2</sup>	37.40%	37.86%
Combined ratio <sup>3</sup>	118.35%	105.84%

<sup>1</sup>Calculated by dividing loss and settlement expenses by net premiums earned.

<sup>2</sup>Calculated by dividing the sum of policy acquisition costs and operating expenses by net earned premiums.

<sup>3</sup>The sum of the losses and settlement expense ratio and the expense ratio. A combined ratio of under 100% indicates an underwriting profit. A combined ratio over 100% indicates an underwriting loss.

The following summarizes our results for the three months ended June 30, 2020 and 2019:

*Premiums*

Direct premiums written decreased by \$1,873,000, or 11.2%, to \$14,912,000 for the three months ended June 30, 2020 from \$16,785,000 for the same period of 2019. Net written premium decreased by \$2,642,000, or 18.4%, to \$11,721,000 for the three months ended June 30, 2020 from \$14,363,000 for the same period in 2019. Net premiums earned decreased by \$1,719,000, or 13.1%, in the three months ended June 30, 2020 as compared to the three months ended June 30, 2019, primarily due to policy exposure decreases resulting from state mandated shutdowns of restaurants and taverns and increased

reinstatement costs associated with the civil unrest and protests occurring in Minneapolis, MN and the greater Chicago area in Illinois.

For the three months ended June 30, 2020, we ceded to reinsurers \$3,167,000 of earned premiums, compared to \$2,425,000 of earned premiums for the three months ended June 30, 2019. Ceded earned premiums as a percent of direct premiums written increased to 21.2% in the three months ended June 30, 2020, from 14.4% in the three months ended June 30, 2019. This increase is primarily due to catastrophic vandalism claims occurring in the second quarter in our Illinois and Minnesota markets.

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

#### *Other Income*

Other income 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 income decreased by \$54,000 or 43.9% during the three months ended June 30, 2020 as a result of a decrease in cash surrender value of company owned life insurance as compared to the same period in 2019.

#### *Losses and Settlement Expenses*

Losses and settlement expenses increased by \$307,000, or 3.4%, to \$9,208,000 for the three months ended June 30, 2020, from \$8,901,000 for the same period in 2019. Losses and settlement expenses increased for the three months ended June 30, 2020, primarily due to higher property losses resulting from the civil unrest and riots experienced during the three months ended June 30, 2020.

#### *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 decreased by \$705,000, or 14.2%, to \$4,254,000 for the three months ended June 30, 2020 from \$4,959,000 for the same period in 2019.

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 Corporate and Other.

Our expense ratio decreased by 46 basis points from 37.86% to 37.40% for the three months ended June 30, 2020 as compared to 2019. This decrease was primarily driven by a decrease in our commission expenses.

#### *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. Our general corporate expenses decreased by \$12,000, or 8.8%, in the three months ended June 30, 2020 as compared to the same period in 2019.

#### *Investment Income*

Net investment income increased by \$108,000, or 13.5%, to \$909,000 for the period ended June 30, 2020, as compared to \$801,000 for the same period in 2019.

#### *Interest Expense*

Interest expense increased to \$57,000 for the three months ended June 30, 2020 from \$32,000 for the same period during 2019. This increase is due to \$22,000 in interest expense for the three months ended June 30, 2020 relating to the \$6 million FHLBC borrowing in June 30, 2020.

*Income Tax Expense*

We reported income tax expense of \$197,000 and \$77,000 for the three months ended June 30, 2020 and 2019, respectively. The increase in income tax expense in 2020 relates to an increase in pretax earnings for the three months ended June 30, 2020 compared to pretax earnings for the same period in 2019. Our effective tax rate for the three months ended June 30, 2020 was 20.1%, compared to 14.8% for the same period in 2019. Effective rates are dependent upon components of pretax (loss) or earnings and the related tax effects.

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

**Financial Position**

The major components of our assets and liabilities are as follows:

	As of	
	June 30, 2020	December 31, 2019
	(Unaudited)	
<i>(In thousands)</i>		
<b>Assets</b>		
Investments and cash:		
Fixed maturity securities (amortized cost - \$91,837 at 6/30/2020 and \$88,348 at 12/31/2019)	\$ 97,873	\$ 92,087
Common stocks at fair value	11,702	14,449
Preferred stocks at fair value	1,555	—
Other invested assets	1,780	878
Property held for investment, at cost, net of accumulated depreciation of \$401 at 6/30/2020 and \$332 at 12/31/2019	5,548	4,354
Cash and cash equivalents	13,028	6,627
<b>Total investments and cash</b>	<b>131,486</b>	<b>118,395</b>
Accrued investment income	680	646
Premiums and reinsurance balances receivable, net of allowances for uncollectible amounts of \$100 at 6/30/2020 and 12/31/2019	25,072	22,369
Ceded unearned premiums	855	823
Reinsurance balances recoverable on unpaid losses and settlement expenses, net of allowances for uncollectible amounts of \$0 at 6/30/2020 and 12/31/2019	19,463	11,036
Federal income taxes	379	193
Deferred policy acquisition costs, net	5,486	5,269
Property and equipment, at cost, net of accumulated depreciation of \$5,819 at 6/30/2020 and \$5,620 at 12/31/2019	2,928	3,033
Other assets	2,079	1,240
<b>Total assets</b>	<b>\$ 188,428</b>	<b>\$ 163,004</b>
<b>Liabilities and Equity</b>		
Liabilities:		
Unpaid losses and settlement expenses	\$ 66,415	\$ 56,838
Unearned premiums	30,213	30,393
Reinsurance balances payable	1,400	375
Corporate debt	15,100	3,475
Accrued expenses	3,118	4,217
Income taxes - deferred	376	39
Other liabilities	4,637	1,325
<b>Total liabilities</b>	<b>121,259</b>	<b>96,662</b>
Equity:		
Common stock <sup>1</sup>	35	35
Treasury stock, at cost <sup>2</sup>	(3,019)	(3,147)
Additional paid-in capital	32,664	32,703
Accumulated other comprehensive earnings, net of tax	4,768	2,954
Retained earnings	35,417	36,609
Less: Unearned ESOP shares at cost <sup>3</sup>	(2,696)	(2,812)
<b>Total equity</b>	<b>67,169</b>	<b>66,342</b>
<b>Total liabilities and equity</b>	<b>\$ 188,428</b>	<b>\$ 163,004</b>

<sup>1</sup> Par value \$0.01; authorized: 2020 - 10,000 shares and 2019 - 10,000 shares; issued: 2020 - 3,500 shares and 2019 - 3,500 shares; outstanding: 2020 - 3,033 shares and 2019 - 3,015 shares.

<sup>2</sup>2020 - 198 shares and 2019 - 204 shares

<sup>3</sup>2020 - 270 shares and 2019 - 281 shares

*Unpaid Losses and Settlement Expense*

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

<i>(In thousands)</i>	As of June 30, 2020		As of December 31, 2019	
Case reserves	\$	25,793	\$	24,370
IBNR reserves		21,159		21,432
Net unpaid losses and settlement expense		46,952		45,802
Reinsurance recoverable on unpaid loss and settlement expense		19,463		11,036
Reserves for unpaid loss and settlement expense	\$	66,415	\$	56,838

As of June 30, 2020, the Company had received 1,258 claims for business interruption related to COVID-19. Based on policy language, the Company does not anticipate that coverage will be triggered for these property claims requiring loss payment.

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 June 30, 2020 and December 31, 2019.

**As of June 30, 2020**

<i>(In thousands)</i>	Case Reserves		IBNR Reserves		Total Reserves	
Commercial liability	\$	16,223	\$	14,849	\$	31,072
Property		5,339		1,318		6,657
Other		4,231		4,992		9,223
Total net reserves		25,793		21,159		46,952
Reinsurance recoverables		12,352		7,111		19,463
Gross reserves	\$	38,145	\$	28,270	\$	66,415

**As of December 31, 2019**

<i>(In thousands)</i>	Case Reserves	IBNR Reserves	Total Reserves	Actuarially Determined Range of Estimates	
				Low	High
Commercial liability	\$ 18,406	\$ 18,249	\$ 36,655		
Property	2,706	(178)	2,528		
Other	3,258	3,361	6,619		
Total net reserves	24,370	21,432	45,802	\$ 41,371	\$ 47,312
Reinsurance recoverables	4,488	6,548	11,036	11,067	15,046
Gross reserves	\$ 28,858	\$ 27,980	\$ 56,838	\$ 52,438	\$ 62,358

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 six months ended June 30, 2020 and 2019, we experienced unfavorable development of \$2,511,000 and \$1,821,000, respectively.

Potential for variability in our reserves is evidenced by this development. As further illustration of reserve variability, we initially estimated unpaid loss and settlement expense net of reinsurance at the end of 2019 at \$45,802,000. As of June 30, 2020, that reserve was re-estimated at \$48,313,000, which is \$2,511,000, or 5.5%, higher than the initial estimate.

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. The ranges presented above represent the expected variability around the actuarially determined central estimate. The total range around our actuarially determined estimate varies from (6.0)% to 7.5%. As shown in the table below, since 2015 the variance in our originally estimated accident year selections range from (3.3)% deficient to 9.2% redundant as of June 30, 2020.



**Recent Variabilities of Incurred Losses and Settlement Expense, Net of Reinsurance**

<i>(In thousands)</i>	<b>Accident Year Data</b>				
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
As originally estimated	\$ 24,293	\$ 25,619	\$ 29,801	\$ 29,762	\$ 33,563
As estimated at June 30, 2020	22,069	25,731	30,335	28,550	34,664
Net cumulative (deficiency) redundancy	\$ 2,225	\$ (112)	\$ (534)	\$ 1,212	\$ (1,100)
% (deficiency) redundancy	9.2%	(0.4)%	(1.8)%	4.1%	(3.3)%

The table below summarizes the impact on equity, net of tax, from changes in estimates of net unpaid loss and settlement expense:

<i>(In thousands)</i>	December 31, 2019	
	Aggregate Loss and Settlement Reserve	Percentage Change in Equity
<b>Reserve Range for Unpaid Losses and Settlement Expense</b>		
Low End	\$ 41,371	5.3%
Recorded	45,802	0.0%
High End	47,312	(1.8)%

If the net loss and settlement expense reserves were recorded at the high end of the actuarially determined range as of December 31, 2019, the loss and settlement expense reserves would increase by \$1.5 million before taxes. This increase in reserves would have the effect of decreasing net earnings and equity as of December 31, 2019 by \$1.2 million. If the loss and settlement expense reserves were recorded at the low end of the actuarially-determined range as of December 31, 2019, the net loss and settlement expense reserves at December 31, 2019 would be reduced by \$4.4 million with corresponding increases in net earnings and equity of \$3.5 million.

*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 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 are carried at fair value with subsequent changes in fair value recorded in net earnings (loss). Investment income is recognized when earned, and capital gains and losses are recognized when investments are sold, or other-than-temporarily impaired.

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

<i>(In thousands)</i>	June 30, 2020					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS/ABS/CMBS	\$ 7,536	\$ (215)	\$ 1,984	\$ (60)	\$ 9,520	\$ (275)
Corporate	1,658	(86)	—	—	1,658	(86)
Municipal	496	(13)	—	—	496	(13)
Total temporarily impaired fixed maturity securities	<u>\$ 9,690</u>	<u>\$ (314)</u>	<u>\$ 1,984</u>	<u>\$ (60)</u>	<u>\$ 11,674</u>	<u>\$ (374)</u>

	December 31, 2019					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(In thousands)</i>						
U.S. Treasury	\$ —	\$ —	\$ 699	\$ (1)	\$ 699	\$ (1)
MBS/ABS/CMBS	6,399	(22)	5,057	(31)	11,456	(53)
Corporate	1,397	(9)	—	—	1,397	(9)
Municipal	1,969	(30)	—	—	1,969	(30)
Total temporarily impaired fixed maturity securities	9,765	(61)	5,756	(32)	15,521	(93)

Corporate Bonds

The net unrealized gain in the Corporate bond portfolio increased by about \$1.4 million from a gain of \$2,473,000 at the end of 2019 to a gain of \$3,866,000 as of June 30, 2020. The increase in unrealized gains was driven by a strong rally in Treasuries which resulted in the yield curve dropping about 140 bps due to COVID-19 concerns.

Municipal Bonds

The net unrealized gain in the Municipal portfolio rose from \$778,000 at the end of 2019 to \$1,240,000 at the end of June 2020, an increase of \$462,000. Like Corporates, Municipals benefitted from a strong rally in the Treasury market which caused prices in Municipals to move higher.

We monitor our investment portfolio and review securities that have experienced a decline in fair value below cost to evaluate whether the decline is other than temporary. When assessing whether the amortized cost basis of the security will be recovered, we 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. If we identify that an other-than-temporary impairment loss has occurred, we then determine whether we intend to sell the security, or if it is more likely than not that we will be required to sell the security prior to recovering the amortized cost basis less any current-period credit losses. If we determine that we do not intend to sell, and it is not more likely than not that we will be required to sell the security, the amount of the impairment loss related to the credit loss will be recorded in earnings, and the remaining portion of the other-than-temporary impairment loss will be recognized in other comprehensive income (loss), net of 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 full amount of the other-than-temporary impairment (OTTI) will be recognized in earnings.

For the six months ended June 30, 2020, the Company did not take an impairment charge on any of its security holdings. Adverse investment market conditions, or poor operating results of underlying investments, could result in 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 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 June 30, 2020 and December 31, 2019, respectively, were utilized, among other resources, in reaching a conclusion as to the fair value of our investments.

Management reviews the reasonableness of the pricing provided by the independent pricing service by employing various analytical procedures. We review all securities to identify recent downgrades, significant changes in pricing, and pricing anomalies on individual securities relative to other similar securities. This will include looking for relative consistency across securities in common sectors, durations, and credit ratings. This review will also include all fixed maturity securities rated lower than "A" by Moody's or S&P. If, after this review, management does not believe the pricing for any security is a reasonable estimate of fair value, then it will seek to resolve the discrepancy through discussions with the pricing service. In our review, we did not identify any such discrepancies for the six months ended June 30, 2020 and 2019 and for the year ended December 31, 2019, and no adjustments were made to the estimates provided by the pricing service. 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.

#### *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. At June 30, 2020 and December 31, 2019, deferred acquisition costs and the related unearned premium reserves were as follows:

(In thousands)	June 30, 2020		December 31, 2019	
Deferred acquisition costs	\$	5,486	\$	5,269
Unearned premium reserves		30,213		30,393

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.

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 June 30, 2020, and December 31, 2019, we had no material unrecognized tax benefits or accrued interest and penalties. Federal tax years 2016 through current year are open for examination.

#### *Other Assets*

As of June 30, 2020 and December 31, 2019 other assets totaled \$2,079,000 and \$1,240,000, respectively. The other assets balances on the consolidated balance sheets are primarily composed of Corporate Owned Life Insurance asset value as well as prepaid fees. The increase in other assets relates to \$670,000 of securities receivable as of June 30, 2020.

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### *Outstanding Debt*

As of June 30, 2020 and December 31, 2019, outstanding debt balances totaled \$15,100,000 and \$3,475,000, respectively. The average rate on remaining debt was 1.5% and 3.7% as of June 30, 2020 and December 31, 2019, respectively.

### *Debt Obligation*

ICC Holdings, Inc. secured a loan with American Bank & Trust in March 2017 in the amount of \$3,500,000 and used the proceeds to repay ICC for the money borrowed by the ESOP. The term of the loan is five years bearing interest at 3.65%. The Company pledged stock and \$1.0 million of marketable assets as collateral for the loan.

The Company also has borrowing capacity up to approximately \$33 million in the aggregate from its membership with FHLBC.

In March 2020, the World Health Organization declared a pandemic related to the rapidly spreading coronavirus (COVID-19) outbreak, which has led to a global health emergency. As part of the Company's response to COVID-19, the Company obtained in March 2020 a \$6.0 million loan from the Federal Home Loan Bank of Chicago (FHLBC) as a precautionary measure to increase its cash position and compensate for potential reductions in premium receivable collections. The term of the loan is five years bearing interest at 1.4%. The Company pledged \$6.8 million of fixed income securities as collateral for this loan. The Company also obtained in May 2020 a \$4.0 million loan from the FHLBC as an additional precautionary measure to increase its cash position and compensate for potential reductions in premium receivable collections as a result of the Company's announcement in March 2020 to temporarily suspend all insurance premium billing for 30 days. The Company pledged an additional \$7.4 million of fixed income securities as collateral for both FHLBC loans.

In April 2020, the Company obtained a \$1.6 million loan (the PPP loan) from a commercial bank pursuant to the federally authorized Paycheck Protection Program (Program) administered by the Small Business Administration (the SBA). The PPP loan matures in the second quarter of 2022 and bears interest at a rate of 1.0% per annum. Commencing the fourth quarter of 2020, we will begin making loan payments. All or a portion of the PPP loan may be forgiven by the SBA upon application by us beginning 60 days, but not later than 120 days, after loan approval and upon documentation of expenditures in accordance with the SBA's requirements. Under the Paycheck Protection Program Flexibility Act of 2020 (the PPP Flexibility Act), (i) the first payment date for the PPP loan will be the earlier of (a) 10 months after the end of the "covered period" (as determined under the Program) or (b) the date the bank receives a remittance of the forgiven amount from the SBA, and (ii) the PPP loan's maturity is extended to five years (from 2 years). The Company plans to apply for loan forgiveness in the third quarter of 2020.

### *Revolving Line of Credit*

We also maintain a revolving line of credit with Quad City Bank & Trust, which permits borrowing up to an aggregate principal amount of \$2.0 million. This facility was initially entered into in early August of 2020. The line of credit is priced at Prime plus 0.5%. In order to secure the lowest rate possible, the Company pledged business assets not to exceed \$2.0 million in the event the Company draws down on the line of credit. Prior to moving to Quad City Bank & Trust, the Company maintained a line of credit through American Bank and Trust. There were no borrowings outstanding and there was no interest paid on the line of credit during the six months ended June 30, 2020 and 2019. There are no financial covenants governing either agreements.

### *Other Liabilities*

As of June 30, 2020 and December 31, 2019 other liabilities totaled \$4,637,000 and \$1,324,000, respectively. The increase in other liabilities relates to \$2,800,000 in the Funds Held account for reinsurance recoveries received but not applied as of June 30, 2020.

## **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, 2019.

**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) were granted for the first time in February 2018 with additional RSUs granted in March 2019 and April 2020. The RSUs vest 1/3 over three years from 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 2019 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. The increase in cash used in investing activities during the six months ended June 30, 2020 compared to the same period in 2019 relates to purchases of both fixed maturity securities and preferred stocks. The increase in cash provided by financing activities during the six months ended June 30, 2020 compared to the same period in 2019 relates to \$11.6 million in loans obtained from FHLBC and SBA during the first six months of 2020. See *Note 4 – Debt* of this Form 10-Q for more information.

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.

Cash flows from continuing operations for the six months ended June 30, 2020 and 2019 were as follows:

<i>(In thousands)</i>	<b>Six Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
Net cash provided by operating activities	\$ 774	\$ 15
Net cash (used in) provided by investing activities	(5,982)	1,438
Net cash provided by (used in) financing activities	11,609	(52)
Net increase in cash and cash equivalents	<u>\$ 6,401</u>	<u>\$ 1,401</u>

ICC Holdings, Inc.’s principal source of liquidity will be dividend payments and other fees received from ICC and its other subsidiaries. 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 2020 without the prior approval of the Illinois Department of Insurance is approximately \$5.5 million based upon the insurance company’s 2019 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. In March 2020, ICC paid a \$500,000 dividend to ICC Holdings, Inc.

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The following table summarizes, as of June 30, 2020, our future payments under contractual obligations and estimated claims and claims related payments for continuing operations. As of June 30, 2020, the Company had received 1,258 claims for business interruption related to COVID-19. Based on policy language, the Company does not anticipate that coverage will be triggered for these property claims requiring loss payment.

<i>(In thousands)</i>	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Estimated gross loss and settlement expense payments	\$ 66,415	\$ 22,851	\$ 23,872	\$ 13,383	\$ 6,309
Debt obligations	15,745	294	9,346	6,105	—
Operating lease obligations	411	286	125	—	—
Total	<u>\$ 82,571</u>	<u>\$ 23,431</u>	<u>\$ 33,343</u>	<u>\$ 19,488</u>	<u>\$ 6,309</u>

The timing of the amounts of the gross loss and loss adjustment expense payments is an estimate based on historical experience and the expectations of future payment patterns. However, the timing of these payments may vary from the amounts stated above.

### **Off-Balance Sheet Arrangements**

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

### **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 at June 30, 2020, was 8.32 years. 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 our 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.

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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):

<b>Hypothetical Change in Interest Rates</b> <i>(In thousands)</i>	<b>June 30, 2020</b>	
	<b>Estimated Change in Fair Value</b>	<b>Fair Value</b>
200 basis point increase	\$ (9,494)	\$ 88,379
100 basis point increase	(4,903)	92,970
No change	—	97,873
100 basis point decrease <sup>1</sup>	3,171	101,044
200 basis point decrease <sup>1</sup>	4,130	102,003

<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 at least 70% of our investment securities must be rated at least "A" by Moody's or an equivalent rating quality. We also independently, and through our independent third-party investment manager, monitor the financial condition of all of 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.

### **Impact of Inflation**

Inflation increases our customers' needs for property and casualty insurance coverage due to the increase in the value of the property covered and any potential liability exposure. Inflation also increases claims incurred by property and casualty insurers as property repairs, replacements and medical expenses increase. These cost increases reduce profit margins to the extent that rate increases are not implemented on an adequate and timely basis. We establish property and casualty insurance premiums levels before the amount of loss and loss expenses, or the extent to which inflation may impact these expenses, are known. Therefore, we attempt to anticipate the potential impact of inflation when establishing rates. Because inflation has remained relatively low in recent years, financial results have not been significantly affected by it.

#### **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 of the SEC. 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 June 30, 2020, 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 June 30, 2020, 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 second quarter of 2020 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, 2019, and filed with the SEC on March 30, 2020 and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, and filed with the SEC on May 15, 2020.



**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>Period</b>	<b>(a) Total number of shares (or units) purchased</b>	<b>(b) Average price paid per share (or unit)</b>	<b>(c) Total number of shares (or units) purchased as part of publicly announced plans or programs</b>	<b>(d) Maximum number (or approximate dollar value) of shares (or units) that may be purchased under the plans or programs (1) (2)</b>
April 1 - April 30, 2020	-	\$ -	-	\$ 2,853,409
May 1 - May 31, 2020	1,203	11.12	13,377	2,840,032
June 1 - June 30, 2020	225	11.47	2,581	2,837,451
<b>Total</b>	<b>1,428</b>	<b>\$ 11.17</b>	<b>15,958</b>	

(1) In September 2017, the Company announced the establishment of a \$3.0 million share repurchase program, with no expiration date.

(2) In August 2018, the Company announced the establishment of a \$3.0 million share repurchase program, with no expiration date. The authorization is in addition to the existing share repurchase program.

**Item 3. Default Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

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	XBRL-Related Documents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on August 14, 2020.

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: August 14, 2020

/s/ Arron K. Sutherland

Arron K. Sutherland

*Chief Executive Officer*

(principal executive officer)

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## 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: August 14, 2020

/s/ Michael R. Smith

Michael R. Smith

Chief Financial Officer  
(principal financial officer)

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**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 June 30, 2020, 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: August 14, 2020

/s/Arron K. Sutherland  
Arron K. Sutherland  
*Chief Executive Officer*

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**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 June 30, 2020 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: August 14, 2020

/s/ Michael R. Smith

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Michael R. Smith

*Chief Financial Officer*

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