

Application for Approval
of a
Plan of Mutual Property and Casualty Insurance
Company Conversion and Minority Offering

NODAK MUTUAL INSURANCE COMPANY
a Mutual Insurer
Domiciled in the State of North Dakota

Filed with the Insurance Department of the State of North Dakota

Dated: February 10, 2016

Names, Titles, Addresses and Telephone Numbers of Individuals to Whom
Notices and Correspondence Concerning This Application Should be Addressed:

<u>Company Officer</u>	<u>Regular Outside Counsel</u>	<u>Special Conversion Counsel</u>
Brian R. Doom Chief Financial Officer Nodak Mutual Insurance Company 1101 1 st Avenue North Fargo, ND 58102 bdoom@nodakmutual.com (701) 298-4333	Sarah Andrews Herman Dorsey & Whitney 3203 32nd Avenue South Suite 103 Fargo, ND 58107-1344 herman.sarah@dorsey.com (701) 271-8883	Scott H. Spencer, Esq. Stevens & Lee 17 North Second Street 16 th Floor Harrisburg, Pa 17101 shs@stevenslee.com 717-399-6634

Background Statement

This Application is submitted by Nodak Mutual Insurance Company (“Nodak Mutual” or the “Applicant”), whose statutory home office and main administrative office is located at 1101 1st Avenue North, Fargo, ND 58102. The NAIC number of Nodak Mutual is 34592.

Nodak Mutual proposes to reorganize itself pursuant to the provisions of § 26.1-12.2 et seq. of the Century Code of North Dakota (the “Conversion Law”) and § 26.1-12.1 et seq. of the Century Code of North Dakota (the “Reorganization Law”) by:

- (a) forming a mutual insurance holding company to be named Nodak Mutual Group, Inc. (the “Mutual Holding Company”);
- (b) forming an intermediate stock holding company to be named NI Holdings, Inc., which will be a majority owned subsidiary of the Mutual Holding Company (the “Stock Holding Company”);
- (c) converting Nodak Mutual from an incorporated mutual insurance company into an incorporated stock insurance company, which will then be a wholly owned subsidiary of the Stock Holding Company; and
- (d) having the Stock Holding Company engage in an “Offering” (defined below) of not more than forty-five percent (45%) of its common stock such that upon completion of the Offering, the Mutual Holding Company will own a majority of the outstanding stock of the Stock Holding Company and the purchasers in the Offering will own a minority of the outstanding stock of the Stock Holding Company.

(All of the foregoing actions, as further described in this Application, constitute the “Conversion.”)

The Board of Directors of Nodak Mutual believes the Conversion is in the best interests of Nodak Mutual and that it is fair and equitable to Nodak Mutual’s members. At a meeting duly called and held on January 21, 2016 (the “Adoption Date”), the Board of Directors of Nodak Mutual unanimously approved the Conversion and adopted a Plan of Conversion and Minority Offering (the “Plan”) providing for the conversion of Nodak Mutual and the Offering in accordance with the requirements of the Conversion Law and the Reorganization Law, and otherwise in accordance with the terms and subject to the conditions as provided in the Plan.

Description of the Proposed Conversion and Offering

Conversion of Nodak Mutual from Mutual to Stock Form

Nodak Mutual will convert from mutual to stock form by means of an amendment to its Articles of Incorporation, to be filed at the closing of the Conversion. The new stock insurance company will be named Nodak Insurance Company. For purposes of this Application, Nodak Insurance Company, as converted to stock form, is sometimes referred to as the “Stock Company.”

Formation of a Mutual Holding Company and Intermediate Stock Holding Company

Under the Plan, the Applicant will create two new holding companies, as follows:

- (a) The new Mutual Holding Company, which will be a North Dakota non-stock corporation called Nodak Mutual Group, Inc. The Mutual Holding Company will be the company through which the policyholders of Nodak Insurance Company hold membership interests and the right to vote after the completion of the Conversion.
- (b) The new intermediate Stock Holding Company, which will be a North Dakota business corporation called NI Holdings, Inc. The intermediate Stock Holding Company will own 100% of the stock of Nodak Insurance Company. The Stock Holding Company will offer up to 45% of its common stock to the Nodak policyholders and other investors in the Offering. The balance of its common stock, being at least 55%, will be owned by the Mutual Holding Company.

A diagram showing the post-Conversion relationship among the companies is attached as Annex I.

The Conversion Offering

According to the Plan, the Stock Holding Company will offer its common stock at the price of \$10 per share. Nodak Mutual has retained the services of Feldman Financial Advisors, Inc. ("Feldman Financial"), which will generate a pro forma valuation of Nodak Insurance Company on an "as-converted" basis in accordance with the Conversion Act.

The gross amount of the Offering will be based upon the pro forma valuation of Nodak Insurance Company performed by Feldman Financial, multiplied by the "Minority Percentage" of stock being offered, namely 45%. The valuation by Feldman Financial will have a midpoint valuation, and a range with a minimum and maximum. As of the date this Application is filed, Feldman Financial has not completed its appraisal or delivered an appraisal report. This Application will be amended when the appraisal report is received; and a copy of the report will be filed with the Department.

The Offering will consist of two, and potentially three, parts, described as follows. Griffin Financial, LLC, a FINRA-registered broker-dealer ("Griffin Financial"), will assist in the conduct of the Offering and the placement of the stock.

Subscription Offering:

Pursuant to the Plan, Subscription Rights to purchase shares of the common stock of the Stock Holding Company will be granted in the following priorities:

- (a) Eligible Members (First Priority). The policyholders of Nodak Mutual on January 21, 2016, the Adoption Date of the Plan, shall receive, without payment, Subscription Rights to

purchase the common stock of the Stock Holding Company up to the midpoint of the Offering range.

(b) ESOP (Second Priority). NI Holdings, Inc. intends to establish an employee stock ownership plan that shall apply to all the employees of Nodak Insurance Company (the “ESOP”). The ESOP shall receive, without payment, Subscription Rights to purchase at the Purchase Price a number of shares of Common Stock equal to nine and nine tenths percent (9.9%) of the total number of shares of common stock to be issued in the Offering. Although the Plan provides for subscription rights up to 9.9% of the offered stock, the ESOP will actually purchase an amount of shares that it can afford to purchase, using the proceeds of a loan to be provided to it by NI Holdings, Inc. It is presently estimated and expected that the ESOP will purchase 240,000 shares. The ESOP’s Subscription Rights may be exercised only to the extent that there are shares of common stock remaining after satisfying the subscriptions of all eligible policyholders. More detail on the ESOP is set forth below under “The Employee Stock Ownership Plan.”

(c) Directors, Officers and Employees (Third Priority). Each Director, Officer and Employee shall receive, without payment, Subscription Rights to purchase up to five percent of the total number of shares of common stock sold in the Offering. Those Subscription Rights may be exercised only to the extent that there are shares of common stock remaining after satisfying the subscriptions of the policyholders and the ESOP.

Community Offering:

In general, the subscription rights portion of conversion offerings rarely take up all of the offered stock. If all of the shares offered for sale are not subscribed for, any remaining shares will be offered to the general public. The Plan sets forth the following tiers and order of priority to various groups of purchasers:

- Persons who become policyholders after the Plan adoption date
- The Applicant’s appointed agents
- Members of the North Dakota Farm Bureau who otherwise are not policyholders of the Applicant
- Employees of Tri-State Ltd., a wholly owned subsidiary of the Applicant
- Residents of North Dakota
- Agents appointed by the Applicant’s other insurance company affiliates
- Residents of the states other than North Dakota in which the Applicant and its affiliates write insurance.

This phase of the offering is referred to as the “community offering” because preference is given to orders received from the Applicant’s “community.” In the community offering, Griffin Financial will also solicit offers from other investors, including institutional investors, who are known to be interested in conversion offerings or insurance company investments generally.

Syndicated Offering:

If all of the shares offered for sale are not placed in the subscription offering and the community offering, then Griffin Financial will enter into arrangements with other broker dealers to place shares to their customers. This process is known as a syndicated offering.

Redemption of Subscription Rights

In accordance with the Conversion Law, the Plan provides that each policyholder who receives Subscription Rights has the right to elect to have the Stock Company redeem such subscription rights for cash. The redemption price for each Subscription Right will be determined by Feldman Financial using the methodology provided in the Conversion Law. Anyone who does not exercise his or her Subscription Rights is deemed to have elected to have such Subscription Rights redeemed for cash. The Plan imposes two additional requirements on the exercise of Subscription Rights: First, any policyholder who has his or her Subscription Rights redeemed will not be permitted to purchase any shares in the Offering. Second, a policyholder must either exercise all Subscription Rights granted to him or her, or must have all Subscription Rights redeemed. The Subscription rights received by the ESOP and by the directors, officers and employees are not redeemable.

Use of Proceeds

As the issuer of the stock, the Stock Holding Company will receive the proceeds of the Offering. It will use the proceeds of the Offering as follows: The cost of the Conversion is estimated at \$1.17 million plus 2% of the Offering amount, and will be paid from the proceeds of the Offering. \$2.4 million of the proceeds will be loaned to the ESOP to enable the ESOP to purchase the shares in the Offering (see below). The balance of the proceeds will be held by the Stock Holding Company for future acquisitions and general corporate purposes. As of the date of this Application, the Applicant does not have any specific acquisition transactions being planned or any other specific plans to use the proceeds.

The Employee Stock Ownership Plan

In conjunction with the Conversion, NI Holdings, Inc. will establish the ESOP that will be put in place effective as of the date that the Conversion is closed. The sponsor of the ESOP will be NI Holdings, Inc., the corporation whose stock will be held by the ESOP.

In general, an ESOP is a form of qualified retirement plan under the Internal Revenue Code of 1986, as amended, that is required to invest primarily in employer securities. The ESOP is a defined contribution plan so each participant in the Plan will have an account balance consisting of employer securities. The initial ESOP participants will be the employees of Nodak Insurance Company. The employees of Tri-State, Ltd. will not participate in the ESOP. None of the Applicant's other affiliates or subsidiaries have employees.

The Nodak ESOP will have an independent trustee. The Applicant is in the process of identifying the ESOP trustee. The trustee will hold the securities and administer the plan for the benefit of the employees.

The Nodak ESOP will be a “leveraged ESOP,” meaning that it will borrow the funds necessary to purchase the employer’s securities. The Applicant’s Board of Directors has determined to lend \$2.4 million to the ESOP, which will enable the ESOP to purchase 240,000 shares in the Offering. The ESOP will use the proceeds of the loan to purchase shares in the Offering and will hold those shares in a special suspense account as collateral for the ESOP loan. The loan will bear interest at 4.0% per annum. Principal will be payable in ten (10) annual installments.

The Applicant will make an annual contribution to the ESOP in an amount sufficient to enable the ESOP to pay the annual principal and interest on the loan. When each annual principal payment is made, one-tenth of the shares will be released from the suspense account and allocated to the individual accounts of the ESOP participants. The loan has been structured so that the annual employer contribution is expected to be able to service the principal and interest requirements and cause all the shares to be vested by the end of the ten-year term.

It is noted that the ESOP will have an independent trustee. The loan will be between NI Holdings, Inc. and the ESOP; Nodak Insurance Company will not be a party to the loan. The ESOP will own less than 2% of the outstanding shares of NI Holdings, Inc., based upon our present assumption that the offering of the 45% minority interest will be for 8 million shares. Therefore, the ESOP will not constitute an affiliate of Nodak Insurance Company and the ESOP transactions will not constitute affiliate transactions.

Corporate Governance

As a result of the Conversion, the policyholders of Nodak Insurance Company will continue to control the company by virtue of their membership in the Mutual Holding Company, coupled with the fact that the Mutual Holding Company will own at least 55% of the outstanding common stock of NI Holdings, Inc. Only policyholders of Nodak Insurance Company may be members of the Mutual Holding Company. (Policyholders of the Applicant’s other affiliates will not be members of the Mutual Holding Company.) The existing Bylaws of Nodak Mutual require every policyholder of the company to be a member of the North Dakota Farm Bureau. The Bylaws of Nodak Insurance Company will contain the same provision. Therefore, one will need to be a member of the Farm Bureau to be a member in the Mutual Holding Company.

The Bylaws of the Mutual Holding Company will contain a requirement that one-third of the members of the Board of Directors of the Mutual Holding Company shall be persons designated by the North Dakota Farm Bureau. (If the number of seats on the board is not evenly divisible by three, the Farm Bureau nominees will be the greatest whole number not exceeding one-third of the seats.) This requirement is consistent with the existing requirement in the Bylaws of Nodak Mutual. Otherwise, the Board of Directors of the Mutual Holding Company will consist of individuals duly nominated and then elected by the members.

NI Holdings, Inc. will have its shares registered with the Securities and Exchange Commission (“SEC”). It is anticipated that the shares will be listed on the NASDAQ Stock Market. As a public company, NI Holdings, Inc. will be subject to requirements of the federal securities laws and NASDAQ regarding the composition and functioning of its board of directors. In general, (a) a majority of the directors must be independent, (b) all of the members of the Audit Committee, the Nominating and Governance Committee, and the Compensation Committee must be independent, and (c) the Audit Committee must have at least one member who is qualified as an “audit committee financial expert.”

The proposed forms of the Articles of Incorporation and Bylaws of the three corporations involved in these transactions accompany this Application, and are identified below under “Submission of Required Documents.”

The Boards of Directors of the three corporations involved in these transactions will be constituted in the following manner:

- The Mutual Holding Company: Initially, the current twelve-person Board of Directors of Nodak Mutual will become the Board of Directors of Nodak Mutual Group, Inc. Thereafter, that board will be elected by the members of the Mutual Holding Company, subject to the requirement discussed above regarding certain members designated by the North Dakota Farm Bureau. There will be no other stipulations concerning the composition of that board.
- The Insurance Company: Initially, the Board of Directors of Nodak Insurance Company will consist of thirteen people, composed of the current twelve members of the Board of Directors of Nodak Mutual Insurance Company plus the Chief Executive Officer of Nodak Mutual Insurance Company. Thereafter, that board will be elected annually by its sole shareholder, NI Holdings, Inc. The Bylaws specify that four members of the Board of Directors of Nodak Insurance Company will be sitting board members of the North Dakota Farm Bureau. There are no other stipulations concerning the composition of that board, although it is expected that the Chief Executive Officer of Nodak Insurance Company will always be a director.
- The Stock Holding Company: Initially, the Board of Directors of NI Holdings, Inc. will consist of six persons: Three members of the board of the Mutual Holding Company; the Chief Executive Officer of Nodak Insurance Company; and two outside directors, one of which will fulfill SEC requirements for an “audit committee financial expert.” The Applicant is in the process of identifying the new board member that will be the audit committee financial expert. Thereafter, that board will be elected by the shareholders of NI Holdings, Inc. There will be no stipulations concerning the composition of that board, except those relating to the company’s status as a public company, and the expectation that the Chief Executive Officer of Nodak Insurance Company will always be a director.

Additional detail on the individuals expected to serve on the Boards of Directors and as the principal officers of the three corporations involved in these transactions is found at Annex VIII.

Acquisition of Control Statement

Nodak Mutual Group, Inc., as the new Mutual Holding Company, will constitute the Ultimate Control Person of Nodak Insurance Company upon the closing of the Conversion. Every policyholder of Nodak Insurance Company will be a member of Nodak Mutual Group, Inc., and therefore no person will hold greater than ten percent (10%) of the voting power of Nodak Mutual Group, Inc.

As discussed above under “Corporate Governance,” up to one-third of the members of the Board of Directors of Nodak Mutual Group, Inc. must consist of persons nominated by the North Dakota Farm Bureau. Because such appointees will constitute only a minority of the directors of the corporation, they will not be able to control the affairs of the insurance company and therefore the Farm Bureau should not constitute a control person of Nodak Mutual Group, Inc. and Nodak Insurance Company.

When Nodak Mutual Group, Inc. is incorporated and organized, it will file an acquisition of control statement on Form A and related Form E in accordance with the Conversion Law.

Effect of the Conversion and Business Plan

In general, the proposed Conversion will cause no changes to the operations of Nodak Mutual. Only the corporate organization matters discussed in this Application will change.

Among the matters that will not be affected by the Conversion are the following:

- Nodak Insurance Company will continue to write the same lines of business as Nodak Mutual currently writes, exclusively to members of the North Dakota Farm Bureau.
- Nodak Insurance Company will continue to directly own America West Insurance Company and Tri-State, Ltd., and indirectly to own Primero Insurance Company. It is expected that the operations of America West Insurance Company and Primero Insurance Company will continue without material change for the foreseeable future.
- Nodak Insurance Company will continue to control Battle Creek Mutual Insurance Company by virtue of the affiliation agreement, management agreement and other agreements in effect between Nodak Mutual and Battle Creek. Those agreements will not be changed or affected by the Conversion. It is expected that the operations of Battle Creek Mutual Insurance Company will continue without material change for the foreseeable future.

Submission of Required Documents

In accordance with the provisions of the Conversion Law, we are enclosing for filing the following documents:

Annex I – Annex I is a diagram depicting the holding company structure.

Annex II - Plan: Contains a copy of the Plan as unanimously adopted by the Board of Directors of the Applicant. (See Section 26.1-12.2-02.2(a) of the Century Code of North Dakota.)

Annex III - Valuation: Contains the independent evaluation of pro forma market value of the converted insurance company required by the Conversion Law, performed by Feldman Financial Advisors, Inc. (See Section 26.1-12.2-02.2(a) of the Century Code of North Dakota.) [*Note: To be filed by Amendment.*]

Annex IV - Proxy Materials: Contains the form of notice of the policyholders meeting of Nodak, and the form of proxy to be solicited from eligible members of Nodak. (See Section 26.1-12.2-02.2(b) of the Century Code of North Dakota.)

Annex V – Notice to Post-Adoption Policyholders: Contains the form of notice to persons becoming policyholders after the date of adoption. (See Section 26.1-12.2-02.2(c) of the Century Code of North Dakota.)

Annex VI – Stock Insurance Company Documents: This Annex contains the proposed forms of Articles of Incorporation and Bylaws for Nodak Insurance Company. (See Section 26.1-12.2-02.2(d) of the Century Code of North Dakota.)

Annex VII – Holding Companies: This Annex contains the proposed forms of Articles of Incorporation and Bylaws for Nodak Mutual Group, Inc. (the Mutual Holding Company) and NI Holdings, Inc. (the intermediate Stock Holding Company).

Annex VIII – Rosters of Directors and Officers: This Annex contains rosters of the persons initially expected to serve as the directors and principal officers of Nodak Mutual Group, Inc., NI Holdings, Inc. and Nodak Insurance Company.

The acquisition of control statement, as required by section 26.1-10-03 of the Conversion Law, and referenced in Section 26.1-12.2-02.2(e) of the Century Code of North Dakota, will be filed by Nodak Mutual Group, Inc. when that corporation has been formed and organized.

SEC Registration Statement

We will provide you a copy of the registration statement on Form S-1 that is filed by NI Holdings, Inc. promptly after filing with the Securities and Exchange Commission.

Filing Fee

Section 26.1-12.2-02.2(f) of the Century Code of North Dakota specifies a minimum filing fee of \$10,000 and a greater filing fee which is based upon the value of the midpoint of the offering range. The amount of the Offering has not yet been established, as the work of the independent appraiser is not yet complete.

The Applicant hereby requests approval to pay the minimum fee of \$10,000 at the time of the filing of this Application, and the balance at the time of the closing of the Conversion. In the

unlikely, unanticipated event that the Conversion would not take place, the Applicant hereby requests paying only the minimum fee of \$10,000.

[Remainder of Page Intentionally Blank – Signature Follows]

The Applicant, Nodak Mutual Insurance Company, has caused this Application to be duly signed on its behalf by its Executive Vice President and Chief Executive Officer in the County of Cass and State of North Dakota on the 10th day of February, 2016.

(SEAL)

By: 

Name: Michael J. Alexander

Title: Executive Vice President and Chief Executive Officer

Attest: 

Name: Brian R. Doom

Title: Secretary/Treasurer and Chief Financial Officer

CERTIFICATION

The undersigned deposes and says that he has duly executed the attached Application dated February 10, 2016, for and on behalf of Nodak Mutual Insurance Company and that he is the Executive Vice President and Chief Executive Officer of such company, and that he is authorized to execute and file such instrument. Deponent further says that he is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

By: 

Name: Michael J. Alexander

Title: Executive Vice President and Chief Executive Officer

Signature Page to Conversion Application

Nodak Mutual Insurance Company

Conversion Application

List of Annexes:

- Annex I - Organization Chart**
- Annex II - Plan of Conversion**
- Annex III - Appraisal Report of
Feldman Financial**
- Annex IV - Form of Proxy Statement**
- Annex V - Notice to Post-Adoption
Policyholders**
- Annex VI - Stock Insurance Company
Documents**
- Annex VII - Holding Companies
Documents**
- Annex VIII - Rosters of Directors and
Officers**