

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

(Mark one)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2019  
OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-1665

**KINGSTONE COMPANIES, INC.**

(Exact name of registrant as specified in its charter)

Delaware(State or other jurisdiction of incorporation or organization)

36-2476480(I.R.S. Employer Identification Number)

15 Joys Lane

Kingston, NY 12401

(Address of principal executive offices)

(845) 802-7900

(Registrant's telephone number, including area code)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

|                         |                          |                           |                                     |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer         | <input checked="" type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
|                         |                          | Emerging growth company   | <input type="checkbox"/>            |

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

As of November 12, 2019, there were 10,785,069 shares of the registrant's common stock outstanding.

**KINGSTONE COMPANIES, INC.**  
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## **Forward-Looking Statements**

This Quarterly Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally, these statements relate to business plans or strategies, projected or anticipated results or other consequences of our plans or strategies, projected or anticipated results from acquisitions to be made by us, or projections involving anticipated revenues, earnings, costs or other aspects of our operating results. The words “may,” “will,” “expect,” “believe,” “anticipate,” “project,” “plan,” “intend,” “estimate,” and “continue,” and their opposites and similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, which may influence the accuracy of the statements and the projections upon which the statements are based. Factors which may cause actual results and outcomes to differ materially from those contained in the forward-looking statements include, but are not limited to the risks and uncertainties discussed in Part I Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018.

Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise except as required by law.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**KINGSTONE COMPANIES, INC. AND SUBSIDIARIES**

**Condensed Consolidated Balance Sheets**

|   | <u>September 30,</u><br><u>2019</u><br>(unaudited) | <u>December 31,</u><br><u>2018</u> |
|---|--|------------------------------------|
| <b>Assets</b>   |  |                                    |
| Fixed-maturity securities, held-to-maturity, at amortized cost (fair value of \$4,127,384 at September 30, 2019 and \$4,426,416 at December 31, 2018)   | \$ 3,825,505                                       | \$ 4,222,855                       |
| Fixed-maturity securities, available-for-sale, at fair value (amortized cost of \$160,601,004 at September 30, 2019 and \$155,431,261 at December 31, 2018)   | 166,220,711  | 151,777,516                        |
| Equity securities, at fair value (cost of \$22,070,565 at September 30, 2019 and \$18,305,986 at December 31, 2018)   | 23,499,199   | 16,572,616                         |
| Other investments   | 2,425,904  | 1,855,225                          |
| <b>Total investments</b>  | <u>195,971,319</u>                                 | <u>174,428,212</u>                 |
| Cash and cash equivalents   | 25,639,050   | 21,138,403                         |
| Premiums receivable, net  | 14,352,521   | 13,961,599                         |
| Reinsurance receivables, net  | 26,580,449   | 26,367,115                         |
| Deferred policy acquisition costs   | 20,491,568   | 17,907,737                         |
| Intangible assets, net  | 500,000  | 670,000                            |
| Property and equipment, net   | 7,582,210  | 6,056,929                          |
| Deferred income taxes, net  | 540,295  | 354,233                            |
| Other assets  | 6,762,909  | 5,867,850                          |
| <b>Total assets</b>   | <u>\$ 298,420,321</u>                              | <u>\$ 266,752,078</u>              |
| <b>Liabilities</b>  |  |                                    |
| Loss and loss adjustment expense reserves   | \$ 77,409,423                                      | \$ 56,197,106                      |
| Unearned premiums   | 90,068,683   | 79,032,131                         |
| Advance premiums  | 3,737,491  | 2,107,629                          |
| Reinsurance balances payable  | 809,836  | 1,933,376                          |
| Deferred ceding commission revenue  | 1,828,872  | 2,686,677                          |
| Accounts payable, accrued expenses and other liabilities  | 8,403,012  | 6,819,231                          |
| Income taxes payable  | -  | 15,035                             |
| Long-term debt, net   | 29,427,386   | 29,295,251                         |
| <b>Total liabilities</b>  | <u>211,684,703</u>                                 | <u>178,086,436</u>                 |
| <b>Commitments and Contingencies (Note 11)</b>  |  |                                    |
| <b>Stockholders' Equity</b>   |  |                                    |
| Preferred stock, \$.01 par value; authorized 2,500,000 shares   | -  | -                                  |
| Common stock, \$.01 par value; authorized 20,000,000 shares; issued 11,811,011 shares at September 30, 2019 and 11,775,148 at December 31, 2018; outstanding 10,783,572 shares at September 30, 2019 and 10,747,709 shares at December 31, 2018 | 118,110  | 117,751                            |
| Capital in excess of par  | 68,755,776   | 67,763,940                         |
| Accumulated other comprehensive income (loss)   | 4,441,716  | (2,884,313)                        |
| Retained earnings   | 16,132,568   | 26,380,816                         |
|   | 89,448,170   | 91,378,194                         |
| Treasury stock, at cost, 1,027,439 shares at September 30, 2019 and at December 31, 2018  | (2,712,552)  | (2,712,552)                        |
| <b>Total stockholders' equity</b>   | <u>86,735,618</u>                                  | <u>88,665,642</u>                  |
| <b>Total liabilities and stockholders' equity</b>   | <u>\$ 298,420,321</u>                              | <u>\$ 266,752,078</u>              |

See accompanying notes to condensed consolidated financial statements.

## Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited)

|   | For the Three Months Ended |                     | For the Nine Months Ended |                    |
|---|----------------------------|---------------------|---------------------------|--------------------|
|   | September 30,              |                     | September 30,             |                    |
|   | 2019                       | 2018                | 2019                      | 2018               |
| <b>Revenues</b>   |                            |                     |                           |                    |
| Net premiums earned   | \$ 34,220,010              | \$ 27,533,907       | \$ 95,017,178             | \$ 74,476,138      |
| Ceding commission revenue   | 1,029,582                  | 1,044,529           | 2,982,960                 | 4,430,855          |
| Net investment income   | 1,856,553                  | 1,602,371           | 5,200,034                 | 4,543,226          |
| Net gains (losses) on investments   | 998,162                    | 352,025             | 3,712,180                 | (277,835)          |
| Other income  | 495,696                    | 353,077             | 1,191,569                 | 961,581            |
| Total revenues  | <u>38,600,003</u>          | <u>30,885,909</u>   | <u>108,103,921</u>        | <u>84,133,965</u>  |
| <b>Expenses</b>   |                            |                     |                           |                    |
| Loss and loss adjustment expenses   | 24,781,318                 | 13,296,708          | 71,587,850                | 41,739,123         |
| Commission expense  | 7,779,344                  | 6,594,323           | 21,931,933                | 18,411,460         |
| Other underwriting expenses   | 6,430,734                  | 5,193,679           | 17,983,174                | 15,301,168         |
| Other operating expenses  | 705,710                    | 683,309             | 2,774,350                 | 1,773,983          |
| Depreciation and amortization   | 646,201                    | 440,383             | 1,876,202                 | 1,273,975          |
| Interest expense  | 456,545                    | 456,545             | 1,369,635                 | 1,365,052          |
| Total expenses  | <u>40,799,852</u>          | <u>26,664,947</u>   | <u>117,523,144</u>        | <u>79,864,761</u>  |
| (Loss) income before taxes  | (2,199,849)                | 4,220,962           | (9,419,223)               | 4,269,204          |
| Income tax (benefit) expense  | (474,687)                  | 287,232             | (1,998,251)               | 296,111            |
| <b>Net (loss) income</b>  | <u>(1,725,162)</u>         | <u>3,933,730</u>    | <u>(7,420,972)</u>        | <u>3,973,093</u>   |
| <b>Other comprehensive income (loss), net of tax</b>                                  |                            |                     |                           |                    |
| Gross change in unrealized gains (losses)<br>on available-for-sale-securities         | 1,323,626                  | (242,453)           | 9,191,817                 | (4,591,699)        |
| Reclassification adjustment for losses<br>included in net income                      | 46,841                     | 131,978             | 81,636                    | 451,877            |
| Net change in unrealized gains (losses)   | <u>1,370,467</u>           | <u>(110,475)</u>    | <u>9,273,453</u>          | <u>(4,139,822)</u> |
| Income tax (expense) benefit related to items<br>of other comprehensive income (loss) | (287,798)                  | 12,416              | (1,947,424)               | 858,377            |
| <b>Other comprehensive income (loss), net of tax</b>                                  | <u>1,082,669</u>           | <u>(98,059)</u>     | <u>7,326,029</u>          | <u>(3,281,445)</u> |
| <b>Comprehensive (loss) income</b>  | <u>\$ (642,493)</u>        | <u>\$ 3,835,671</u> | <u>\$ (94,943)</u>        | <u>\$ 691,648</u>  |
| <b>(Loss) Earnings per common share:</b>  |                            |                     |                           |                    |
| Basic   | <u>\$ (0.16)</u>           | <u>\$ 0.37</u>      | <u>\$ (0.69)</u>          | <u>\$ 0.37</u>     |
| Diluted   | <u>\$ (0.16)</u>           | <u>\$ 0.36</u>      | <u>\$ (0.69)</u>          | <u>\$ 0.37</u>     |
| <b>Weighted average common shares outstanding</b>                                     |                            |                     |                           |                    |
| Basic   | <u>10,779,641</u>          | <u>10,681,329</u>   | <u>10,769,817</u>         | <u>10,672,084</u>  |
| Diluted   | <u>10,779,641</u>          | <u>10,791,123</u>   | <u>10,769,817</u>         | <u>10,780,590</u>  |
| <b>Dividends declared and paid per common share</b>                                   | <u>\$ 0.0625</u>           | <u>\$ 0.1000</u>    | <u>\$ 0.2625</u>          | <u>\$ 0.3000</u>   |

See accompanying notes to condensed consolidated financial statements.

## Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

Three months ended September 30, 2019 and 2018

|  | Preferred Stock |        | Common Stock |            | Capital<br>in Excess<br>of Par | Accumulated<br>Other<br>Comprehensive<br>Loss | Retained<br>Earnings | Treasury Stock |                | Total         |
|--|-----------------|--------|--------------|------------|--------------------------------|---|----------------------|----------------|----------------|---------------|
|  | Shares          | Amount | Shares       | Amount     |                                |   |                      | Shares         | Amount         |               |
| Balance, July 1, 2018  | -               | \$ -   | 11,685,904   | \$ 116,859 | \$ 68,347,784                  | \$ (2,496,981)                                | \$ 25,471,668        | 1,024,444      | \$ (2,712,522) | \$ 88,726,808 |
| Stock-based compensation   | -               | -      | -            | -          | 197,335                        | -   | -                    | -              | -              | 197,335       |
| Vesting of restricted stock awards   | -               | -      | 4,866        | 48         | (48)                           | -   | -                    | -              | -              | -             |
| Share deducted from restricted stock awards for payment of withholding taxes | -               | -      | (1,059)      | (11)       | (18,339)                       | -   | -                    | -              | -              | (18,350)      |
| Exercise of stock options  | -               | -      | 57,596       | 576        | 26,684                         | -   | -                    | -              | -              | 27,260        |
| Shares deducted from exercise of stock                                       | -               | -      | (18,141)     | (181)      | (332,702)                      | -   | -                    | -              | -              | (332,883)     |
| Acquisition of treasury stock  | -               | -      | -            | -          | -                              | -   | -                    | 2,995          | (30)           | (30)          |
| Dividends  | -               | -      | -            | -          | -                              | -   | (1,070,054)          | -              | -              | (1,070,054)   |
| Net income   | -               | -      | -            | -          | -                              | -   | 3,933,730            | -              | -              | 3,933,730     |
| Change in unrealized losses on available-for-sale securities, net of tax     | -               | -      | -            | -          | -                              | (98,059)                                      | -                    | -              | -              | (98,059)      |
| Balance, September 30, 2018  | -               | \$ -   | 11,729,166   | \$ 117,291 | \$ 68,220,714                  | \$ (2,595,040)                                | \$ 28,335,344        | 1,027,439      | \$ (2,712,552) | \$ 91,365,757 |

|   | Preferred Stock |        | Common Stock |            | Capital<br>in Excess<br>of Par | Accumulated<br>Other<br>Comprehensive<br>Income | Retained<br>Earnings | Treasury Stock |                | Total         |
|---|-----------------|--------|--------------|------------|--------------------------------|---|----------------------|----------------|----------------|---------------|
|   | Shares          | Amount | Shares       | Amount     |                                |   |                      | Shares         | Amount         |               |
| Balance, July 1, 2019   | -               | \$ -   | 11,802,087   | \$ 118,020 | \$ 68,373,590                  | \$ 3,359,047                                    | \$ 18,531,657        | 1,027,439      | \$ (2,712,552) | \$ 87,669,762 |
| Stock-based compensation  | -               | -      | -            | -          | 407,714                        | -   | -                    | -              | -              | 407,714       |
| Vesting of restricted stock awards  | -               | -      | 12,050       | 120        | (120)                          | -   | -                    | -              | -              | -             |
| Shares deducted from restricted stock awards for payment of withholding taxes | -               | -      | (3,126)      | (30)       | (25,408)                       | -   | -                    | -              | -              | (25,438)      |
| Dividends   | -               | -      | -            | -          | -                              | -   | (673,927)            | -              | -              | (673,927)     |
| Net loss  | -               | -      | -            | -          | -                              | -   | (1,725,162)          | -              | -              | (1,725,162)   |
| Change in unrealized gains on available-for-sale securities, net of tax       | -               | -      | -            | -          | -                              | 1,082,669                                       | -                    | -              | -              | 1,082,669     |
| Balance, September 30, 2019   | -               | \$ -   | 11,811,011   | \$ 118,110 | \$ 68,755,776                  | \$ 4,441,716                                    | \$ 16,132,568        | 1,027,439      | \$ (2,712,552) | \$ 86,735,618 |

See accompanying notes to condensed consolidated financial statements.

**Condensed Consolidated Statements of Stockholders' Equity (Unaudited)**

Nine months ended September 30, 2019 and 2018

|  | Preferred Stock |        | Common Stock |            | Capital in Excess of Par | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Treasury Stock |                | Total         |
|--|-----------------|--------|--------------|------------|--------------------------|---|-------------------|----------------|----------------|---------------|
|  | Shares          | Amount | Shares       | Amount     |                          |   |                   | Shares         | Amount         |               |
| Balance, January 1, 2018, as reported  | -               | \$ -   | 11,618,646   | \$ 116,186 | \$ 68,380,390            | \$ 1,100,647                                  | \$ 27,152,822     | 986,809        | \$ (2,172,299) | \$ 94,577,746 |
| Cumulative effect of adoption of updated accounting guidance for equity financial instruments at January 1, 2018 | -               | -      | -            | -          | -                        | (414,242)                                     | 414,242           | -              | -              | -             |
| Balance, January 1, 2018, as adjusted  | -               | -      | 11,618,646   | 116,186    | 68,380,390               | 686,405                                       | 27,567,064        | 986,809        | (2,172,299)    | 94,577,746    |
| Stock-based compensation   | -               | -      | -            | -          | 481,812                  | -   | -                 | -              | -              | 481,812       |
| Exercise of stock options  | -               | -      | 130,872      | 1,311      | 72,828                   | -   | -                 | -              | -              | 74,139        |
| Shares deducted from exercise of stock options for payment of withholding taxes                                  | -               | -      | (33,891)     | (337)      | (674,314)                | -   | -                 | -              | -              | (674,651)     |
| Vesting of restricted stock awards   | -               | -      | 15,752       | 155        | (155)                    | -   | -                 | -              | -              | -             |
| Shares deducted from restricted stock awards for payment of withholding taxes                                    | -               | -      | (2,213)      | (24)       | (39,847)                 | -   | -                 | -              | -              | (39,871)      |
| Acquisition of treasury stock  | -               | -      | -            | -          | -                        | -   | -                 | 40,630         | (540,253)      | (540,253)     |
| Dividends  | -               | -      | -            | -          | -                        | -   | (3,204,813)       | -              | -              | (3,204,813)   |
| Net income   | -               | -      | -            | -          | -                        | -   | 3,973,093         | -              | -              | 3,973,093     |
| Change in unrealized losses on available-for-sale securities, net of tax   | -               | -      | -            | -          | -                        | (3,281,445)                                   | -                 | -              | -              | (3,281,445)   |
| Balance, September 30, 2018  | -               | \$ -   | 11,729,166   | \$ 117,291 | \$ 68,220,714            | \$ (2,595,040)                                | \$ 28,335,344     | 1,027,439      | \$ (2,712,552) | \$ 91,365,757 |

See accompanying notes to condensed consolidated financial statements.

## Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

Nine months ended September 30, 2019 and 2018 Continued

|   | Preferred Stock |        | Common Stock |            | Capital in<br>Excess<br>of Par | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Retained<br>Earnings | Treasury Stock |                | Total         |
|---|-----------------|--------|--------------|------------|--------------------------------|---|----------------------|----------------|----------------|---------------|
|   | Shares          | Amount | Shares       | Amount     |                                |   |                      | Shares         | Amount         |               |
| Balance, January 1, 2019  | -               | \$ -   | 11,775,148   | \$ 117,751 | \$ 67,763,940                  | \$ (2,884,313)  | \$ 26,380,816        | 1,027,439      | \$ (2,712,552) | \$ 88,665,642 |
| Stock-based compensation  | -               | -      | -            | -          | 1,116,921                      | -   | -                    | -              | -              | 1,116,921     |
| Exercise of stock options   | -               | -      | 3,000        | 30         | 23,522                         | -   | -                    | -              | -              | 23,552        |
| Vesting of restricted stock awards  | -               | -      | 43,596       | 434        | (434)                          | -   | -                    | -              | -              | -             |
| Shares deducted from restricted stock awards for payment of withholding taxes | -               | -      | (10,733)     | (105)      | (148,173)                      | -   | -                    | -              | -              | (148,278)     |
| Dividends   | -               | -      | -            | -          | -                              | -   | (2,827,276)          | -              | -              | (2,827,276)   |
| Net loss  | -               | -      | -            | -          | -                              | -   | (7,420,972)          | -              | -              | (7,420,972)   |
| Change in unrealized gains on available-for-sale securities, net of tax       | -               | -      | -            | -          | -                              | 7,326,029   | -                    | -              | -              | 7,326,029     |
| Balance, September 30, 2019   | -               | \$ -   | 11,811,011   | \$ 118,110 | \$ 68,755,776                  | \$ 4,441,716  | \$ 16,132,568        | 1,027,439      | \$ (2,712,552) | \$ 86,735,618 |

See accompanying notes to condensed consolidated financial statements.

**Condensed Consolidated Statements of Cash Flows (Unaudited)**

Nine months ended September 30,

|  | 2019                 | 2018                 |
|--|----------------------|----------------------|
| <b>Cash flows from operating activities:</b>   |                      |                      |
| Net (loss) income  | \$ (7,420,972)       | \$ 3,973,093         |
| Adjustments to reconcile net (loss) income to net cash flows provided by operating activities: |                      |                      |
| Net losses on sale of investments  | 54,759               | 377,303              |
| Net unrealized (gains) losses of equity investments  | (3,196,260)          | 141,976              |
| Net unrealized gains of other investments  | (570,679)            | (241,444)            |
| Depreciation and amortization  | 1,876,202            | 1,273,975            |
| Amortization of bond premium, net  | 283,620              | 284,204              |
| Amortization of discount and issuance costs on long-term debt                                  | 132,135              | 124,241              |
| Stock-based compensation   | 1,116,921            | 481,812              |
| Deferred income tax (benefit) expense  | (2,133,486)          | 136,032              |
| (Increase) decrease in operating assets:   |                      |                      |
| Premiums receivable, net   | (390,922)            | (266,849)            |
| Reinsurance receivables, net   | (213,334)            | 3,500,669            |
| Deferred policy acquisition costs  | (2,583,831)          | (2,276,012)          |
| Other assets   | (882,320)            | (1,824,401)          |
| Increase (decrease) in operating liabilities:  |                      |                      |
| Loss and loss adjustment expense reserves  | 21,212,317           | 5,143,335            |
| Unearned premiums  | 11,036,552           | 9,926,741            |
| Advance premiums   | 1,629,862            | 1,411,027            |
| Reinsurance balances payable   | (1,123,540)          | (840,122)            |
| Deferred ceding commission revenue   | (857,805)            | (1,748,944)          |
| Accounts payable, accrued expenses and other liabilities                                       | 1,568,746            | (1,379,309)          |
| <b>Net cash flows provided by operating activities</b>   | <b>19,537,965</b>    | <b>18,197,327</b>    |
| <b>Cash flows from investing activities:</b>   |                      |                      |
| Purchase - fixed-maturity securities available-for-sale  | (15,373,113)         | (43,957,529)         |
| Purchase - equity securities   | (6,657,676)          | (10,357,210)         |
| Sale and redemption - fixed-maturity securities held-to-maturity                               | 400,000              | 624,963              |
| Sale or maturity - fixed-maturity securities available-for-sale                                | 9,835,464            | 17,740,260           |
| Sale - equity securities   | 2,941,492            | 5,694,121            |
| Acquisition of property and equipment  | (3,231,483)          | (2,044,440)          |
| <b>Net cash flows used in investing activities</b>   | <b>(12,085,316)</b>  | <b>(32,299,835)</b>  |
| <b>Cash flows from financing activities:</b>   |                      |                      |
| Proceeds from exercise of stock options  | 23,552               | 74,139               |
| Withholding taxes paid on net exercise of stock options  | -                    | (674,651)            |
| Withholding taxes paid on vested restricted stock awards                                       | (148,278)            | (39,871)             |
| Purchase of treasury stock   | -                    | (540,253)            |
| Dividends paid   | (2,827,276)          | (3,204,813)          |
| <b>Net cash flows used in financing activities</b>   | <b>(2,952,002)</b>   | <b>(4,385,449)</b>   |
| Increase (decrease) in cash and cash equivalents   | \$ 4,500,647         | \$ (18,487,957)      |
| Cash and cash equivalents, beginning of period   | 21,138,403           | 48,381,633           |
| <b>Cash and cash equivalents, end of period</b>  | <b>\$ 25,639,050</b> | <b>\$ 29,893,676</b> |
| <b>Supplemental disclosures of cash flow information:</b>                                      |                      |                      |
| Cash paid for income taxes   | \$ 388,000           | \$ 1,250,000         |
| Cash paid for interest   | \$ 825,000           | \$ 875,417           |

See accompanying notes to condensed consolidated financial statements.

**KINGSTONE COMPANIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 1 - Nature of Business and Basis of Presentation**

Kingstone Companies, Inc. (referred to herein as "Kingstone" or the "Company"), through its wholly owned subsidiary, Kingstone Insurance Company ("KICO"), underwrites property and casualty insurance to small businesses and individuals exclusively through agents and brokers. KICO is a licensed insurance company in the States of New York, New Jersey, Rhode Island, Massachusetts, Pennsylvania, Connecticut, Maine and New Hampshire. KICO is currently offering its property and casualty insurance products in New York, New Jersey, Rhode Island, Massachusetts, and Connecticut. Although New Jersey, Rhode Island, Massachusetts and Connecticut continue to be growing markets for the Company, 84.0% and 86.8% of KICO's direct written premiums for the three months and nine months ended September 30, 2019, respectively, came from the New York policies. Kingstone, through its subsidiary, Cosi Agency, Inc. ("Cosi"), a multi-state licensed general agency, accesses alternate forms of distribution outside of the independent agent and broker network, through which KICO currently distributes its various products. Kingstone (through Cosi) now has the opportunity to partner with name-brand carriers and access nationwide insurance agencies.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The principles for condensed interim financial information do not require the inclusion of all the information and footnotes required by GAAP for complete financial statements. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended December 31, 2018 and notes thereto included in the Company's Annual Report on Form 10-K filed with the SEC on March 18, 2019. The accompanying condensed consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with standards of the Public Company Accounting Oversight Board (United States) but, in the opinion of management, such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the Company's financial position and results of operations. The results of operations for the nine months ended September 30, 2019 may not be indicative of the results that may be expected for the year ending December 31, 2019.

**Note 2 – Accounting Policies**

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions, which include the reserves for losses and loss adjustment expenses, and are subject to estimation errors due to the inherent uncertainty in projecting ultimate claim amounts that will be reported and settled over a period of many years. In addition, estimates and assumptions associated with receivables under reinsurance contracts related to contingent ceding commission revenue require judgments by management. On an on-going basis, management reevaluates its assumptions and the methods for calculating these estimates. Actual results may differ significantly from the estimates and assumptions used in preparing the consolidated financial statements.

Principles of Consolidation

The accompanying condensed consolidated financial statements consist of Kingstone and its wholly owned subsidiaries, including KICO and its wholly owned subsidiaries, CMIC Properties, Inc. ("Properties") and 15 Joys Lane, LLC ("15 Joys Lane"), which together own the land and building from which KICO operates. All significant inter-company account balances and transactions have been eliminated in consolidation.

Accounting Changes

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, "Disclosure Update and Simplification," amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule was effective on November 5, 2018. The Company adopted the provisions of this Release effective January 1, 2019, and included the required presentation of changes in stockholders' equity for the nine months ended September 30, 2019 and 2018.

In February 2016, the FASB issued ASU 2016-02 – Leases (Topic 842) ("ASU 2016-02"). Under this ASU, the Company recognized a right-of-use-asset and corresponding liability on the balance sheet for all leases, except for leases covering a period of fewer than 12 months. The liability has been measured at the present value of the future minimum lease payments taking into account renewal options if applicable plus initial incremental direct costs such as commissions. The minimum payments are discounted using the Company's incremental borrowing rate. The Company adopted ASU 2016-02 effective January 1, 2019 using the cumulative effect adjustment transition method, which applies the provision of the standard at the effective date without adjusting the comparative periods presented. The adoption of the updated guidance resulted in the Company recognizing a right-of-use asset of \$855,000 as part of other assets and a lease liability of \$855,000 as part of accounts payable, accrued expenses and other liabilities in the condensed consolidated balance sheet. The right-of-use asset is amortized as rent expense on a straight line basis. The adoption of this ASU did not have a material effect on the Company's results of operations or liquidity.

## Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13 - Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). The revised accounting guidance requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. In addition, ASU 2016-13 amends the accounting for credit losses of available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective for the Company on January 1, 2020. The Company is currently evaluating the effect the updated guidance will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”). This update modifies the existing disclosure requirements on fair value measurements in Topic 820 by changing requirements regarding Level 1, Level 2 and Level 3 investments. ASU 2018-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those annual periods, with early adoption permitted. Entities are permitted to early adopt any removed or modified disclosures of ASU 2018-13 immediately and delay the adoption of the additional disclosures until their effective date. The Company does not intend to early adopt the additional disclosures and are assessing the impact of retrospectively adopting the additions from this new accounting standard on the fair value disclosures herein.

The Company has determined that all other recently issued accounting pronouncements will not have a material impact on its consolidated financial position, results of operations and cash flows, or do not apply to its operations.

## Note 3 - Investments

### Fixed-Maturity Securities

The amortized cost, estimated fair value, and unrealized gains and losses of investments in fixed-maturity securities classified as available-for-sale as of September 30, 2019 and December 31, 2018 are summarized as follows:

| Category  | September 30, 2019           |                              |                         |                        |                            |   |
|---|------------------------------|------------------------------|-------------------------|------------------------|----------------------------|---|
|   | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross Unrealized Losses |                        | Estimated<br>Fair<br>Value | Net<br>Unrealized<br>Gains/<br>(Losses) |
|   |                              |                              | Less than 12<br>Months  | More than 12<br>Months |                            |   |
| <b>Fixed-Maturity Securities:</b>   |                              |                              |                         |                        |                            |   |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 8,243,486                 | \$ 156,066                   | \$ -                    | \$ -                   | \$ 8,399,552               | \$ 156,066                              |
| Political subdivisions of States, Territories and Possessions                         | 5,662,999                    | 187,006                      | -                       | -                      | 5,850,005                  | 187,006                                 |
| Corporate and other bonds   |                              |                              |                         |                        |                            |   |
| Industrial and miscellaneous  | 124,956,806                  | 5,365,954                    | (33,073)                | (20,893)               | 130,268,794                | 5,311,988                               |
| Residential mortgage and other asset backed securities (1)                            | 21,737,713                   | 297,257                      | (19,924)                | (312,685)              | 21,702,361                 | (35,352)                                |
| <b>Total</b>  | <b>\$160,601,004</b>         | <b>\$ 6,006,283</b>          | <b>\$ (52,997)</b>      | <b>\$ (333,578)</b>    | <b>\$166,220,712</b>       | <b>\$ 5,619,708</b>                     |

- (1) In 2017, KICO placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its membership in the Federal Home Loan Bank of New York (“FHLBNY”) (See Note 7). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from the FHLBNY credit line. As of September 30, 2019, the estimated fair value of the eligible investments was approximately \$5,144,000. KICO will retain all rights regarding all securities if pledged as collateral. As of September 30, 2019, there was no outstanding balance on the FHLBNY credit line.

December 31, 2018

| Category  | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross Unrealized Losses |                        | Estimated<br>Fair<br>Value | Net<br>Unrealized<br>Gains/<br>(Losses) |
|---|------------------------------|------------------------------|-------------------------|------------------------|----------------------------|---|
|   |                              |                              | Less than 12<br>Months  | More than 12<br>Months |                            |   |
|   |                              |                              |                         |                        |                            |   |
| <b>Fixed-Maturity Securities:</b>   |                              |                              |                         |                        |                            |   |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 8,222,050                 | \$ 26,331                    | \$ (28,000)             | \$ -                   | \$ 8,220,381               | \$ (1,669)                              |
| Political subdivisions of States, Territories and Possessions                         | 6,339,540                    | 50,903                       | (12,327)                | (36,508)               | 6,341,608                  | 2,068                                   |
| Corporate and other bonds   |                              |                              |                         |                        |                            |   |
| Industrial and miscellaneous  | 119,078,698                  | 123,740                      | (2,775,540)             | (676,605)              | 115,750,293                | (3,328,405)                             |
| Residential mortgage and other asset backed securities (1)                            | 21,790,973                   | 236,502                      | (231,229)               | (331,012)              | 21,465,234                 | (325,739)                               |
| <b>Total</b>  | <b>\$155,431,261</b>         | <b>\$ 437,476</b>            | <b>\$ (3,047,096)</b>   | <b>\$ (1,044,125)</b>  | <b>\$151,777,516</b>       | <b>\$ (3,653,745)</b>                   |

(1) In 2017, KICO placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its membership in the FHLBNY (see Note 7). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from the FHLBNY credit line. As of December 31, 2018, the estimated fair value of the eligible investments was approximately \$5,116,000. KICO will retain all rights regarding all securities if pledged as collateral. As of December 31, 2018, there was no outstanding balance on the FHLBNY credit line.

A summary of the amortized cost and estimated fair value of the Company's investments in available-for-sale fixed-maturity securities by contractual maturity as of September 30, 2019 and December 31, 2018 is shown below:

| Remaining Time to Maturity                             | September 30, 2019    |                       | December 31, 2018     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | Amortized             | Estimated             | Amortized             | Estimated             |
|  | Cost                  | Fair Value            | Cost                  | Fair Value            |
| Less than one year                                     | \$ 12,273,128         | \$ 12,322,490         | \$ 6,742,519          | \$ 6,738,014          |
| One to five years                                      | 50,106,836            | 51,297,620            | 47,038,838            | 46,640,012            |
| Five to ten years                                      | 74,473,145            | 78,850,661            | 76,884,505            | 74,290,076            |
| More than 10 years                                     | 2,010,182             | 2,047,580             | 2,974,426             | 2,644,180             |
| Residential mortgage and other asset backed securities | 21,737,713            | 21,702,361            | 21,790,973            | 21,465,234            |
| <b>Total</b>   | <b>\$ 160,601,004</b> | <b>\$ 166,220,712</b> | <b>\$ 155,431,261</b> | <b>\$ 151,777,516</b> |

The actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without penalties.

## Equity Securities

The cost, estimated fair value, and gross gains and losses of investments in equity securities as of September 30, 2019 and December 31, 2018 are as follows:

| Category                                       | September 30, 2019   |                     |                     |                      |
|--|----------------------|---------------------|---------------------|----------------------|
|  | Cost                 | Gross Gains         | Gross Losses        | Estimated Fair Value |
| <b>Equity Securities:</b>                      |                      |                     |                     |                      |
| Preferred stocks                               | \$ 8,415,227         | \$ 394,815          | \$ (16,042)         | \$ 8,794,000         |
| Common stocks and exchange traded mutual funds | 13,655,339           | 1,537,211           | (487,351)           | 14,705,199           |
| Total  | <u>\$ 22,070,566</u> | <u>\$ 1,932,026</u> | <u>\$ (503,393)</u> | <u>\$ 23,499,199</u> |

| Category                                       | December 31, 2018    |                  |                       |                      |
|--|----------------------|------------------|-----------------------|----------------------|
|  | Cost                 | Gross Gains      | Gross Losses          | Estimated Fair Value |
| <b>Equity Securities:</b>                      |                      |                  |                       |                      |
| Preferred stocks                               | \$ 6,694,754         | \$ -             | \$ (541,798)          | \$ 6,152,956         |
| Common stocks and exchange traded mutual funds | 11,611,232           | 99,817           | (1,291,389)           | 10,419,660           |
| Total  | <u>\$ 18,305,986</u> | <u>\$ 99,817</u> | <u>\$ (1,833,187)</u> | <u>\$ 16,572,616</u> |

## Other Investments

The cost, estimated fair value, and gross unrealized gains and losses of the Company's other investments as of September 30, 2019 and December 31, 2018 are as follows:

| Category                  | September 30, 2019  |                   |                      | December 31, 2018   |                     |                      |
|---------------------------|---------------------|-------------------|----------------------|---------------------|---------------------|----------------------|
|                           | Cost                | Gross Gains       | Estimated Fair Value | Cost                | Gross Losses        | Estimated Fair Value |
| <b>Other Investments:</b> |                     |                   |                      |                     |                     |                      |
| Hedge fund                | \$ 1,999,381        | \$ 426,523        | \$ 2,425,904         | \$ 1,999,381        | \$ (144,156)        | \$ 1,855,225         |
| Total                     | <u>\$ 1,999,381</u> | <u>\$ 426,523</u> | <u>\$ 2,425,904</u>  | <u>\$ 1,999,381</u> | <u>\$ (144,156)</u> | <u>\$ 1,855,225</u>  |

## Held-to-Maturity Securities

The amortized cost, estimated fair value, and unrealized gains and losses of investments in held-to-maturity fixed-maturity securities as of September 30, 2019 and December 31, 2018 are summarized as follows:

| Category  | September 30, 2019         |                          |                         |                     |                            |                          |
|---|----------------------------|--------------------------|-------------------------|---------------------|----------------------------|--------------------------|
|   | Cost or Amortized Cost     | Gross Unrealized Gains   | Gross Unrealized Losses |                     | Estimated Fair Value       | Net Unrealized Gains     |
|   |                            |                          | Less than 12 Months     | More than 12 Months |                            |                          |
| <b>Held-to-Maturity Securities:</b>                           |                            |                          |                         |                     |                            |                          |
| U.S. Treasury securities                                      | \$ 729,539                 | \$ 153,088               | \$ -                    | \$ -                | \$ 882,627                 | \$ 153,088               |
| Political subdivisions of States, Territories and Possessions | 998,668                    | 50,357                   | -                       | -                   | 1,049,025                  | 50,357                   |
| Corporate and other bonds                                     |                            |                          |                         |                     |                            |                          |
| Industrial and miscellaneous                                  | <u>2,097,298</u>           | <u>98,434</u>            | <u>-</u>                | <u>-</u>            | <u>2,195,732</u>           | <u>98,434</u>            |
| <b>Total</b>  | <b>\$ <u>3,825,505</u></b> | <b>\$ <u>301,879</u></b> | <b>\$ <u>-</u></b>      | <b>\$ <u>-</u></b>  | <b>\$ <u>4,127,384</u></b> | <b>\$ <u>301,879</u></b> |

| Category  | December 31, 2018          |                          |                          |                           |                            |                          |
|---|----------------------------|--------------------------|--------------------------|---------------------------|----------------------------|--------------------------|
|   | Cost or Amortized Cost     | Gross Unrealized Gains   | Gross Unrealized Losses  |                           | Estimated Fair Value       | Net Unrealized Gains     |
|   |                            |                          | Less than 12 Months      | More than 12 Months       |                            |                          |
| <b>Held-to-Maturity Securities:</b>                           |                            |                          |                          |                           |                            |                          |
| U.S. Treasury securities                                      | \$ 729,507                 | \$ 147,532               | \$ (3,964)               | \$ -                      | \$ 873,075                 | \$ 143,568               |
| Political subdivisions of States, Territories and Possessions | 998,803                    | 33,862                   | -                        | -                         | 1,032,665                  | 33,862                   |
| Corporate and other bonds                                     |                            |                          |                          |                           |                            |                          |
| Industrial and miscellaneous                                  | <u>2,494,545</u>           | <u>38,461</u>            | <u>(1,425)</u>           | <u>(10,905)</u>           | <u>2,520,676</u>           | <u>26,131</u>            |
| <b>Total</b>  | <b>\$ <u>4,222,855</u></b> | <b>\$ <u>219,855</u></b> | <b>\$ <u>(5,389)</u></b> | <b>\$ <u>(10,905)</u></b> | <b>\$ <u>4,426,416</u></b> | <b>\$ <u>203,561</u></b> |

Held-to-maturity U.S. Treasury securities are held in trust pursuant to various states' minimum funds requirements.

A summary of the amortized cost and estimated fair value of the Company's investments in held-to-maturity securities by contractual maturity as of September 30, 2019 and December 31, 2018 is shown below:

| Remaining Time to Maturity | September 30, 2019         |                            | December 31, 2018          |                            |
|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
|                            | Amortized Cost             | Estimated Fair Value       | Amortized Cost             | Estimated Fair Value       |
| Less than one year         | \$ 623,000                 | \$ 629,143                 | \$ -                       | \$ -                       |
| One to five years          | \$ 2,098,950               | \$ 2,214,947               | 2,996,685                  | 3,036,531                  |
| Five to ten years          | \$ 497,016                 | \$ 529,255                 | 619,663                    | 635,846                    |
| More than 10 years         | \$ 606,539                 | \$ 754,039                 | 606,507                    | 754,039                    |
| <b>Total</b>               | <b>\$ <u>3,825,505</u></b> | <b>\$ <u>4,127,384</u></b> | <b>\$ <u>4,222,855</u></b> | <b>\$ <u>4,426,416</u></b> |

The actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without penalties.

## Investment Income

Major categories of the Company's net investment income are summarized as follows:

|                           | Three months ended |              | Nine months ended |              |
|---------------------------|--------------------|--------------|-------------------|--------------|
|                           | September 30,      |              | September 30,     |              |
|                           | 2019               | 2018         | 2019              | 2018         |
| <b>Income:</b>            |                    |              |                   |              |
| Fixed-maturity securities | \$ 1,499,135       | \$ 1,386,931 | \$ 4,500,346      | \$ 3,898,730 |
| Equity securities         | 253,594            | 214,498      | 666,247           | 609,086      |
| Cash and cash equivalents | 75,253             | 44,024       | 288,334           | 159,865      |
| Total                     | 1,827,982          | 1,645,453    | 5,454,927         | 4,667,681    |
| <b>Expenses:</b>          |                    |              |                   |              |
| Investment expenses       | (28,571)           | 43,082       | 254,893           | 124,455      |
| Net investment income     | \$ 1,856,553       | \$ 1,602,371 | \$ 5,200,034      | \$ 4,543,226 |

Proceeds from the sale and redemption of fixed-maturity securities held-to-maturity were \$400,000 and \$624,963 for the nine months ended September 30, 2019 and 2018, respectively.

Proceeds from the sale or maturity of fixed-maturity securities available-for-sale were \$9,835,464 and \$17,740,260 for the nine months ended September 30, 2019 and 2018, respectively.

Proceeds from the sale of equity securities were \$2,941,492 and \$5,694,121 for the nine months ended September 30, 2019 and 2018, respectively.

The Company's net gains (losses) on investments are summarized as follows:

|                                   | Three months ended |                   | Nine months ended   |                     |
|-----------------------------------|--------------------|-------------------|---------------------|---------------------|
|                                   | September 30,      |                   | September 30,       |                     |
|                                   | 2019               | 2018              | 2019                | 2018                |
| <b>Realized Gains (Losses)</b>    |                    |                   |                     |                     |
| <b>Fixed-maturity securities:</b> |                    |                   |                     |                     |
| Gross realized gains              | \$ 10              | \$ 4,749          | \$ 10,954           | \$ 116,961          |
| Gross realized losses             | (46,851)           | (77,191)          | (92,591)            | (560,418)           |
|                                   | <u>(46,841)</u>    | <u>(72,442)</u>   | <u>(81,637)</u>     | <u>(443,457)</u>    |
| <b>Equity securities:</b>         |                    |                   |                     |                     |
| Gross realized gains              | 38,477             | 121,609           | 83,737              | 436,859             |
| Gross realized losses             | -                  | (106,321)         | (56,859)            | (370,705)           |
|                                   | <u>38,477</u>      | <u>15,288</u>     | <u>26,878</u>       | <u>66,154</u>       |
| Net realized losses               | <u>(8,364)</u>     | <u>(57,154)</u>   | <u>(54,759)</u>     | <u>(377,303)</u>    |
| <b>Unrealized Gains (Losses)</b>  |                    |                   |                     |                     |
| <b>Equity securities:</b>         |                    |                   |                     |                     |
| Gross gains                       | 916,496            | -                 | 3,196,260           | -                   |
| Gross losses                      | -                  | 288,435           | -                   | (141,976)           |
|                                   | <u>916,496</u>     | <u>288,435</u>    | <u>3,196,260</u>    | <u>(141,976)</u>    |
| <b>Other investments:</b>         |                    |                   |                     |                     |
| Gross gains                       | 90,030             | 120,744           | 570,679             | 241,444             |
| Gross losses                      | -                  | -                 | -                   | -                   |
|                                   | <u>90,030</u>      | <u>120,744</u>    | <u>570,679</u>      | <u>241,444</u>      |
| Net unrealized gains              | <u>1,006,526</u>   | <u>409,179</u>    | <u>3,766,939</u>    | <u>99,468</u>       |
| Net gains (losses) on investments | <u>\$ 998,162</u>  | <u>\$ 352,025</u> | <u>\$ 3,712,180</u> | <u>\$ (277,835)</u> |

#### Impairment Review

Impairment of investment securities results in a charge to operations when a market decline below cost is deemed to be other-than-temporary. The Company regularly reviews its fixed-maturity securities to evaluate the necessity of recording impairment losses for other-than-temporary declines in the estimated fair value of investments. In evaluating potential impairment, GAAP specifies (i) if the Company does not have the intent to sell a debt security prior to recovery and (ii) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When the Company does not intend to sell the security and it is more likely than not that the Company will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment ("OTTI") of a debt security in earnings and the remaining portion in comprehensive income (loss). The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections. For held-to-maturity debt securities, the amount of OTTI recorded in comprehensive loss for the noncredit portion of a previous OTTI is amortized prospectively over the remaining life of the security on the basis of timing of future estimated cash flows of the security.

OTTI losses are recorded in the condensed consolidated statements of operations and comprehensive income (loss) as net realized losses on investments and result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process and different judgments and assumptions could affect the timing of loss realization. At September 30, 2019 and December 31, 2018, there were 38 and 156 fixed-maturity securities, respectively, that accounted for the gross unrealized loss. The Company determined that none of the unrealized losses were deemed to be OTTI for its portfolio of investments for the nine months ended September 30, 2019 and 2018. Significant factors influencing the Company's determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent and ability to retain the investment for a period of time sufficient to allow for an anticipated recovery of estimated fair value to the Company's cost basis.

The Company held available-for-sale securities with unrealized losses representing declines that were considered temporary at September 30, 2019 as follows:

| Category   | September 30, 2019         |                      |                             |                            |                      |                             |                            |                      |
|--|----------------------------|----------------------|-----------------------------|----------------------------|----------------------|-----------------------------|----------------------------|----------------------|
|  | Less than 12 months        |                      |                             | 12 months or more          |                      |                             | Total                      |                      |
|  | Estimated<br>Fair<br>Value | Unrealized<br>Losses | No. of<br>Positions<br>Held | Estimated<br>Fair<br>Value | Unrealized<br>Losses | No. of<br>Positions<br>Held | Estimated<br>Fair<br>Value | Unrealized<br>Losses |
| <b>Fixed-Maturity Securities:</b>  |                            |                      |                             |                            |                      |                             |                            |                      |
| U.S. Treasury securities<br>and obligations of U.S.<br>government corporations<br>and agencies | \$ -                       | \$ -                 | -                           | \$ -                       | \$ -                 | -                           | \$ -                       | \$ -                 |
| Political subdivisions of<br>States, Territories and<br>Possessions                            | -                          | -                    | -                           | -                          | -                    | -                           | -                          | -                    |
| Corporate and other<br>bonds industrial and<br>miscellaneous                                   | 3,258,185                  | (33,073)             | 6                           | 3,170,889                  | (20,893)             | 6                           | 6,429,074                  | (53,966)             |
| Residential mortgage and other<br>asset backed securities                                      | 3,008,874                  | (19,924)             | 3                           | 15,596,316                 | (312,685)            | 23                          | 18,605,190                 | (332,609)            |
| <b>Total fixed-maturity<br/>securities</b>   | <u>\$ 6,267,059</u>        | <u>\$ (52,997)</u>   | <u>9</u>                    | <u>\$ 18,767,205</u>       | <u>\$ (333,578)</u>  | <u>29</u>                   | <u>\$ 25,034,264</u>       | <u>\$ (386,575)</u>  |

The Company held available-for-sale securities with unrealized losses representing declines that were considered temporary at December 31, 2018 as follows:

| Category   | December 31, 2018          |                       |                             |                            |                       |                             |                            |                       |
|--|----------------------------|-----------------------|-----------------------------|----------------------------|-----------------------|-----------------------------|----------------------------|-----------------------|
|  | Less than 12 months        |                       |                             | 12 months or more          |                       |                             | Total                      |                       |
|  | Estimated<br>Fair<br>Value | Unrealized<br>Losses  | No. of<br>Positions<br>Held | Estimated<br>Fair<br>Value | Unrealized<br>Losses  | No. of<br>Positions<br>Held | Estimated<br>Fair<br>Value | Unrealized<br>Losses  |
| <b>Fixed-Maturity Securities:</b>  |                            |                       |                             |                            |                       |                             |                            |                       |
| U.S. Treasury securities<br>and obligations of U.S.<br>government corporations<br>and agencies | \$ 4,948,530               | \$ (28,000)           | 3                           | \$ -                       | \$ -                  | -                           | \$ 4,948,530               | \$ (28,000)           |
| Political subdivisions of<br>States, Territories and<br>Possessions                            | 555,375                    | (12,327)              | 1                           | 1,436,242                  | (36,508)              | 3                           | 1,991,617                  | (48,835)              |
| Corporate and other<br>bonds industrial and<br>miscellaneous                                   | 81,004,459                 | (2,775,540)           | 97                          | 13,424,888                 | (676,605)             | 24                          | 94,429,347                 | (3,452,145)           |
| Residential mortgage and other<br>asset backed securities                                      | <u>7,002,713</u>           | <u>(231,229)</u>      | <u>9</u>                    | <u>11,928,425</u>          | <u>(331,012)</u>      | <u>19</u>                   | <u>18,931,138</u>          | <u>(562,241)</u>      |
| Total fixed-maturity<br>securities   | <u>\$ 93,511,077</u>       | <u>\$ (3,047,096)</u> | <u>110</u>                  | <u>\$ 26,789,555</u>       | <u>\$ (1,044,125)</u> | <u>46</u>                   | <u>\$120,300,632</u>       | <u>\$ (4,091,221)</u> |

#### Note 4 - Fair Value Measurements

Fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation technique used by the Company to fair value its financial instruments is the market approach, which uses prices and other relevant information generated by market transactions involving identical or comparable assets.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded, including during period of market disruption, and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy and those investments included in each are as follows:

*Level 1*—Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets. Included are those investments traded on an active exchange, such as the Nasdaq Global Select Market, U.S. Treasury securities and obligations of U.S. government agencies, together with corporate debt securities that are generally investment grade.

*Level 2*—Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs. Municipal and corporate bonds, and residential mortgage-backed securities, that are traded in less active markets are classified as Level 2. These securities are valued using market price quotations for recently executed transactions.

*Level 3*—Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement. Material assumptions and factors considered in pricing investment securities and other assets may include appraisals, projected cash flows, market clearing activity or liquidity circumstances in the security or similar securities that may have occurred since the prior pricing period.

The availability of observable inputs varies and is affected by a wide variety of factors. When the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment. The degree of judgment exercised by management in determining fair value is greatest for investments categorized as Level 3. For investments in this category, the Company considers prices and inputs that are current as of the measurement date. In periods of market dislocation, as characterized by current market conditions, the ability to observe prices and inputs may be reduced for many instruments. This condition could cause a security to be reclassified between levels.

The following table presents information about the Company's investments that are measured at fair value on a recurring basis at September 30, 2019 and December 31, 2018 indicating the fair value hierarchy of the valuation inputs the Company utilized to determine such fair value:

|   | September 30, 2019    |                      |             |                       |
|---|-----------------------|----------------------|-------------|-----------------------|
|   | Level 1               | Level 2              | Level 3     | Total                 |
| <b>Fixed-maturity securities available-for-sale</b>                                   |                       |                      |             |                       |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 8,399,552          | \$ -                 | \$ -        | \$ 8,399,552          |
| Political subdivisions of States, Territories and Possessions                         | -                     | 5,850,005            | -           | 5,850,005             |
| Corporate and other bonds industrial and miscellaneous                                | 127,148,873           | 3,119,921            | -           | 130,268,794           |
| Residential mortgage backed securities  | -                     | 21,702,361           | -           | 21,702,361            |
| Total fixed maturities  | 135,548,425           | 30,672,287           | -           | 166,220,712           |
| <b>Equity securities</b>  | 23,499,199            | -                    | -           | 23,499,199            |
| Total investments   | <u>\$ 159,047,624</u> | <u>\$ 30,672,287</u> | <u>\$ -</u> | <u>\$ 189,719,911</u> |
|   | December 31, 2018     |                      |             |                       |
|   | Level 1               | Level 2              | Level 3     | Total                 |
| <b>Fixed-maturity securities available-for-sale</b>                                   |                       |                      |             |                       |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 8,220,381          | \$ -                 | \$ -        | \$ 8,220,381          |
| Political subdivisions of States, Territories and Possessions                         | -                     | 6,341,608            | -           | 6,341,608             |
| Corporate and other bonds industrial and miscellaneous                                | 112,076,270           | 3,674,023            | -           | 115,750,293           |
| Residential mortgage backed securities  | -                     | 21,465,234           | -           | 21,465,234            |
| Total fixed maturities  | 120,296,651           | 31,480,865           | -           | 151,777,516           |
| <b>Equity securities</b>  | 16,572,616            | -                    | -           | 16,572,616            |
| Total investments   | <u>\$ 136,869,267</u> | <u>\$ 31,480,865</u> | <u>\$ -</u> | <u>\$ 168,350,132</u> |

Pursuant to ASC 820 “Fair Value Measurement,” an entity is permitted, as a practical expedient, to estimate the fair value of an investment within the scope of ASC 820 using the net asset value (“NAV”) per share of the investment. The following table sets forth the Company’s investment in a hedge fund measured at NAV per share as of September 30, 2019 and December 31, 2018. The Company measures this investment at fair value on a recurring basis. Fair value using NAV per share is as follows as of the dates indicated:

| Category                  | September 30,<br>2019 | December 31,<br>2018 |
|---------------------------|-----------------------|----------------------|
| <b>Other Investments:</b> |                       |                      |
| Hedge fund                | \$ 2,425,904          | \$ 1,855,225         |
| Total                     | <u>\$ 2,425,904</u>   | <u>\$ 1,855,225</u>  |

The investment is generally redeemable with at least 45 days prior written notice. The hedge fund investment is accounted for as a limited partnership by the Company. Income is earned based upon the Company’s allocated share of the partnership’s changes in unrealized gains and losses to its partners. Such amounts have been recorded in the condensed consolidated statements of operations and comprehensive income (loss) within net gains (losses) on investments.

The estimated fair value and the level of the fair value hierarchy of the Company’s long-term debt as of September 30, 2019 and December 31, 2018 not measured at fair value is as follows:

|                       | September 30, 2019 |               |         |               |
|-----------------------|--------------------|---------------|---------|---------------|
|                       | Level 1            | Level 2       | Level 3 | Total         |
| <b>Long-term debt</b> |                    |               |         |               |
| Senior Notes due 2022 | \$ -               | \$ 27,310,623 | \$ -    | \$ 27,310,623 |

|                       | December 31, 2018 |               |         |               |
|-----------------------|-------------------|---------------|---------|---------------|
|                       | Level 1           | Level 2       | Level 3 | Total         |
| <b>Long-term debt</b> |                   |               |         |               |
| Senior Notes due 2022 | \$ -              | \$ 28,521,734 | \$ -    | \$ 28,521,734 |

## Note 5 - Fair Value of Financial Instruments and Real Estate

The Company uses the following methods and assumptions in estimating the fair value of financial instruments and real estate:

**Equity securities, available-for-sale fixed income securities, held-to-maturity fixed income securities, and other investments:** Fair value disclosures for these investments are included in “Note 3 - Investments” and “Note 4 – Fair Value Measurements”.

**Cash and cash equivalents:** The carrying values of cash and cash equivalents approximate their fair values because of the short-term nature of these instruments.

**Premiums receivable and reinsurance receivables:** The carrying values reported in the condensed consolidated balance sheets for these financial instruments approximate their fair values due to the short-term nature of the assets.

**Real estate:** The fair value of the land and building included in property and equipment, which is used in the Company’s operations, approximates the carrying value. The fair value was based on an appraisal prepared using the sales comparison approach, and accordingly the real estate is a Level 3 asset under the fair value hierarchy.

**Reinsurance balances payable:** The carrying value reported in the condensed consolidated balance sheets for these financial instruments approximates fair value.

**Long-term debt:** The estimated fair value of long-term debt is based on observable market interest rates when available. When observable market interest rates were not available, the estimated fair values of debt were based on observable market interest rates of comparable instruments adjusted for differences between the observed instruments and the instruments being valued or estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements.

The estimated fair values of the Company’s financial instruments and real estate as of September 30, 2019 and December 31, 2018 are as follows:

|  | September 30, 2019 |                      | December 31, 2018 |                      |
|--|--------------------|----------------------|-------------------|----------------------|
|  | Carrying Value     | Estimated Fair Value | Carrying Value    | Estimated Fair Value |
| Fixed-maturity securities-held-to maturity   | \$ 3,825,505       | \$ 4,127,384         | \$ 4,222,855      | \$ 4,426,416         |
| Cash and cash equivalents                    | \$ 25,639,050      | \$ 25,639,050        | \$ 21,138,403     | \$ 21,138,403        |
| Premiums receivable, net                     | \$ 14,352,521      | \$ 14,352,521        | \$ 13,961,599     | \$ 13,961,599        |
| Reinsurance receivables, net                 | \$ 26,580,449      | \$ 26,580,449        | \$ 26,367,115     | \$ 26,367,115        |
| Real estate, net of accumulated depreciation | \$ 2,288,851       | \$ 2,705,000         | \$ 2,300,827      | \$ 2,705,000         |
| Reinsurance balances payable                 | \$ 809,836         | \$ 809,836           | \$ 1,933,376      | \$ 1,933,376         |
| Long-term debt, net                          | \$ 29,427,386      | \$ 27,310,623        | \$ 29,295,251     | \$ 28,521,734        |

**Note 6 – Property and Casualty Insurance Activity**Premiums Earned

Premiums written, ceded and earned are as follows:

|  | <u>Direct</u>         | <u>Assumed</u>  | <u>Ceded</u>           | <u>Net</u>           |
|--|-----------------------|-----------------|------------------------|----------------------|
| <b>Nine months ended September 30, 2019</b>  |                       |                 |                        |                      |
| Premiums written                             | \$ 128,333,117        | \$ 938          | \$ (20,914,074)        | \$ 107,419,981       |
| Change in unearned premiums                  | (11,035,993)          | (559)           | (1,366,251)            | (12,402,803)         |
| Premiums earned                              | <u>\$ 117,297,124</u> | <u>\$ 379</u>   | <u>\$ (22,280,325)</u> | <u>\$ 95,017,178</u> |
| <b>Nine months ended September 30, 2018</b>  |                       |                 |                        |                      |
| Premiums written                             | \$ 107,175,413        | \$ 842          | \$ (19,409,423)        | \$ 87,766,832        |
| Change in unearned premiums                  | (9,930,503)           | 3,762           | (3,363,953)            | \$ (13,290,694)      |
| Premiums earned                              | <u>\$ 97,244,910</u>  | <u>\$ 4,604</u> | <u>\$ (22,773,376)</u> | <u>\$ 74,476,138</u> |
| <b>Three months ended September 30, 2019</b> |                       |                 |                        |                      |
| Premiums written                             | \$ 46,023,290         | \$ 861          | \$ (5,586,278)         | \$ 40,437,873        |
| Change in unearned premiums                  | (4,579,777)           | (761)           | (1,637,325)            | (6,217,863)          |
| Premiums earned                              | <u>\$ 41,443,513</u>  | <u>\$ 100</u>   | <u>\$ (7,223,603)</u>  | <u>\$ 34,220,010</u> |
| <b>Three months ended September 30, 2018</b> |                       |                 |                        |                      |
| Premiums written                             | \$ 38,785,453         | \$ 18           | \$ (2,683,699)         | \$ 36,101,772        |
| Change in unearned premiums                  | (4,435,174)           | 698             | (4,133,389)            | (8,567,865)          |
| Premiums earned                              | <u>\$ 34,350,279</u>  | <u>\$ 716</u>   | <u>\$ (6,817,088)</u>  | <u>\$ 27,533,907</u> |

Premium receipts in advance of the policy effective date are recorded as advance premiums. The balance of advance premiums as of September 30, 2019 and December 31, 2018 was \$3,737,491 and \$2,107,629, respectively.

## Loss and Loss Adjustment Expense Reserves

The following table provides a reconciliation of the beginning and ending balances for unpaid losses and loss adjustment expense (“LAE”) reserves:

|                                  | Nine months ended |               |
|----------------------------------|-------------------|---------------|
|                                  | September 30,     |               |
|                                  | 2019              | 2018          |
| Balance at beginning of period   | \$ 56,197,106     | \$ 48,799,622 |
| Less reinsurance recoverables    | (15,671,247)      | (16,748,908)  |
| Net balance, beginning of period | 40,525,859        | 32,050,714    |
| Incurred related to:             |                   |               |
| Current year                     | 60,401,821        | 41,611,658    |
| Prior years                      | 11,186,029        | 127,465       |
| Total incurred                   | 71,587,850        | 41,739,123    |
| Paid related to:                 |                   |               |
| Current year                     | 31,515,656        | 23,404,909    |
| Prior years                      | 18,600,946        | 12,160,419    |
| Total paid                       | 50,116,602        | 35,565,328    |
| Net balance at end of period     | 61,997,107        | 38,224,509    |
| Add reinsurance recoverables     | 15,412,316        | 15,718,448    |
| Balance at end of period         | \$ 77,409,423     | \$ 53,942,957 |

Incurred losses and LAE are net of reinsurance recoveries under reinsurance contracts of \$8,849,440 and \$11,668,527 for the nine months ended September 30, 2019 and 2018, respectively.

Prior year incurred loss and LAE development is based upon estimates by line of business and accident year. Prior year loss and LAE development incurred during the nine months ended September 30, 2019 and 2018 was \$11,186,029 unfavorable and \$127,465 unfavorable, respectively. During the nine months ended September 30, 2019, the Company increased case reserves for a significant number of older liability claims, which primarily affected the ultimate loss projections for commercial lines business. These adjustments were in line with management’s continued process of monitoring claims activity to assess the appropriateness of carried case and incurred but not reported (“IBNR”) reserves, giving consideration to both Company and industry trends.

The reserving process for loss and LAE reserves provides for the Company’s best estimate at a particular point in time of the ultimate unpaid cost of all losses and LAE incurred, including settlement and administration of losses, and is based on facts and circumstances then known including losses that have occurred but that have not yet been reported. The process relies on standard actuarial reserving methodologies, judgments relative to estimates of ultimate claim severity and frequency, the length of time before losses will develop to their ultimate level (“tail” factors), and the likelihood of changes in the law or other external factors that are beyond the Company’s control. Several actuarial reserving methodologies are used to estimate required loss reserves. The process produces carried reserves set by management based upon the actuaries’ best estimate and is the cumulative combination of the best estimates made by line of business, accident year, and loss and LAE. The amount of loss and LAE reserves for individual reported claims (the “case reserve”) is determined by the claims department and changes over time as new information is gathered. Such information is critical to the review of appropriate IBNR reserves and includes a review of coverage applicability, comparative liability on the part of the insured, injury severity, property damage, replacement cost estimates, and any other information considered pertinent to estimating the exposure presented by the claim. The amounts of loss and LAE reserves for unreported claims and development on known claims (IBNR reserves) are determined using historical information aggregated by line of insurance as adjusted to current conditions. Since this process produces loss reserves set by management based upon the actuaries’ best estimate, there is no explicit or implicit provision for uncertainty in the carried loss reserves.

Due to the inherent uncertainty associated with the reserving process, the ultimate liability may differ, perhaps substantially, from the original estimate. Such estimates are regularly reviewed and updated and any resulting adjustments are included in the current period’s results. Reserves are closely monitored and are recomputed periodically using the most recent information on reported claims and a variety of statistical techniques. On at least a quarterly basis, the Company reviews by line of business existing reserves, new claims, changes to existing case reserves, and paid losses with respect to the current and prior periods. Several methods are used, varying by line of business and accident year, in order to select the estimated period-end loss reserves. These methods include the following:

*Paid Loss Development* – historical patterns of paid loss development are used to project future paid loss emergence in order to estimate required reserves.

*Incurred Loss Development* – historical patterns of incurred loss development, reflecting both paid losses and changes in case reserves, are used to project future incurred loss emergence in order to estimate required reserves.

*Paid Bornhuetter-Ferguson (“BF”)* – an estimated loss ratio for a particular accident year is determined, and is weighted against the portion of the accident year claims that have been paid, based on historical paid loss development patterns. The estimate of required reserves assumes that the remaining unpaid portion of a particular accident year will pay out at a rate consistent with the estimated loss ratio for that year. This method can be useful for situations where an unusually high or low amount of paid losses exists at the early stages of the claims development process.

*Incurred Bornhuetter-Ferguson (“BF”)* – an estimated loss ratio for a particular accident year is determined, and is weighted against the portion of the accident year claims that have been reported, based on historical incurred loss development patterns. The estimate of required reserves assumes that the remaining unreported portion of a particular accident year will pay out at a rate consistent with the estimated loss ratio for that year. This method can be useful for situations where an unusually high or low amount of reported losses exists at the early stages of the claims development process.

*Incremental Claim-Based Methods* – historical patterns of incremental incurred losses and paid LAE during various stages of development are reviewed and assumptions are made regarding average loss and LAE development applied to remaining claims inventory. Such methods more properly reflect changes in the speed of claims closure and the relative adequacy of case reserve levels at various stages of development. These methods may provide a more accurate estimate of IBNR for lines of business with relatively few remaining open claims but for which significant recent settlement activity has occurred.

*Frequency / Severity Based Methods* – historical measurements of claim frequency and average paid claim size (severity) are reviewed for more mature accident years where a majority of claims have been reported and/or closed. These historical averages are trended forward to more recent periods in order to estimate ultimate losses for newer accident years that are not yet fully developed. These methods are useful for lines of business with slow and/or volatile loss development patterns, such as liability lines where information pertaining to individual cases may not be completely known for many years. The claim frequency and severity information for older periods can then be used as reasonable measures for developing a range of estimates for more recent immature periods.

Management’s best estimate of required reserves is generally based on an average of the methods above, with appropriate weighting of methods based on the line of business and accident year being projected. In some cases, additional methods or historical data from industry sources are employed to supplement the projections derived from the methods listed above.

Two key assumptions that materially affect the estimate of loss reserves are the loss ratio estimate for the current accident year used in the BF methods described above, and the loss development factor selections used in the loss development methods described above. The loss ratio estimates used in the BF methods are selected after reviewing historical accident year loss ratios adjusted for rate changes, trend, and mix of business.

The Company is not aware of any claim trends that have emerged or that would cause future adverse development that have not already been contemplated in setting current carried reserves levels.

In New York State, lawsuits for negligence are subject to certain limitations and must be commenced within three years from the date of the accident or are otherwise barred. Accordingly, the Company’s exposure to unreported claims (“pure” IBNR) for accident dates of September 30, 2016 and prior is limited, although there remains the possibility of adverse development on reported claims (“case development” IBNR). In certain rare circumstances states have retroactively revised a statute of limitations. The Company is not aware of any such effort that would have a material impact on the Company’s results.

The following is information about incurred and paid claims development as of September 30, 2019, net of reinsurance, as well as the cumulative reported claims by accident year and total IBNR reserves as of September 30, 2019 included in the net incurred loss and allocated expense amounts. The historical information regarding incurred and paid claims development for the years ended December 31, 2010 to December 31, 2018 is presented as supplementary unaudited information.

**All Lines of Business**  
(in thousands, except reported claims data)

| Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance |                                  |          |          |          |          |          |          |          |              |                   | As of<br>September 30, 2019                         |  |
|--|----------------------------------|----------|----------|----------|----------|----------|----------|----------|--------------|-------------------|---|--|
| Accident<br>Year   | For the Years Ended December 31, |          |          |          |          |          |          |          |              |                   | Nine<br>Months<br>Ended<br>September<br>30,<br>2019 | Cumulative<br>Number of<br>Reported<br>Claims by<br>Accident<br>Year |
|  | 2010                             | 2011     | 2012     | 2013     | 2014     | 2015     | 2016     | 2017     | 2018         | 2019              |   |  |
| <b>Unaudited 2010 - 2018</b>   |                                  |          |          |          |          |          |          |          |              |                   |   |  |
| 2010   | \$ 5,598                         | \$ 5,707 | \$ 6,429 | \$ 6,623 | \$ 6,912 | \$ 6,853 | \$ 6,838 | \$ 6,840 | \$ 6,787     | \$ 6,793          | \$ -  | 1,617  |
| 2011   |                                  | 7,603    | 7,678    | 8,618    | 9,440    | 9,198    | 9,066    | 9,144    | 9,171        | 9,161             | 14  | 1,914  |
| 2012   |                                  |          | 9,539    | 9,344    | 10,278   | 10,382   | 10,582   | 10,790   | 10,791       | 11,016            | 79  | 4,704(1)   |
| 2013   |                                  |          |          | 10,728   | 9,745    | 9,424    | 9,621    | 10,061   | 10,089       | 10,571            | 95  | 1,561  |
| 2014   |                                  |          |          |          | 14,193   | 14,260   | 14,218   | 14,564   | 15,023       | 16,576            | 454   | 2,134  |
| 2015   |                                  |          |          |          |          | 22,340   | 21,994   | 22,148   | 22,491       | 23,408            | 311   | 2,555  |
| 2016   |                                  |          |          |          |          |          | 26,062   | 24,941   | 24,789       | 28,209            | 883   | 2,873  |
| 2017   |                                  |          |          |          |          |          |          | 31,605   | 32,169       | 34,848            | 879   | 3,368  |
| 2018   |                                  |          |          |          |          |          |          |          | 54,455       | 56,320            | 3,091   | 4,162  |
| 2019   |                                  |          |          |          |          |          |          |          |              | 57,364            | 16,404  | 3,118  |
|  |                                  |          |          |          |          |          |          |          | <b>Total</b> | <b>\$ 254,266</b> |   |  |

(1) Reported claims for accident year 2012 includes 3,406 claims from Superstorm Sandy.

**All Lines of Business**  
(in thousands)

**Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance**

| Accident Year | For the Years Ended December 31, |          |          |          |          |          |          |          |              |                   | Nine Months Ended September 30, |
|---------------|----------------------------------|----------|----------|----------|----------|----------|----------|----------|--------------|-------------------|---------------------------------|
|               | 2010                             | 2011     | 2012     | 2013     | 2014     | 2015     | 2016     | 2017     | 2018         | 2019              |                                 |
|               | (Unaudited 2010 - 2018)          |          |          |          |          |          |          |          |              |                   | (Unaudited)                     |
| 2010          | \$ 2,566                         | \$ 3,947 | \$ 4,972 | \$ 5,602 | \$ 6,323 | \$ 6,576 | \$ 6,720 | \$ 6,772 | \$ 6,780     | \$ 6,780          |                                 |
| 2011          |                                  | 3,740    | 5,117    | 6,228    | 7,170    | 8,139    | 8,540    | 8,702    | 8,727        | 8,778             |                                 |
| 2012          |                                  |          | 3,950    | 5,770    | 7,127    | 8,196    | 9,187    | 10,236   | 10,323       | 10,422            |                                 |
| 2013          |                                  |          |          | 3,405    | 5,303    | 6,633    | 7,591    | 8,407    | 9,056        | 9,235             |                                 |
| 2014          |                                  |          |          |          | 5,710    | 9,429    | 10,738   | 11,770   | 13,819       | 14,692            |                                 |
| 2015          |                                  |          |          |          |          | 12,295   | 16,181   | 18,266   | 19,984       | 20,982            |                                 |
| 2016          |                                  |          |          |          |          |          | 15,364   | 19,001   | 21,106       | 22,988            |                                 |
| 2017          |                                  |          |          |          |          |          |          | 16,704   | 24,820       | 27,470            |                                 |
| 2018          |                                  |          |          |          |          |          |          |          | 32,383       | 43,383            |                                 |
| 2019          |                                  |          |          |          |          |          |          |          |              | 30,115            |                                 |
|               |                                  |          |          |          |          |          |          |          | <b>Total</b> | <b>\$ 194,845</b> |                                 |

|   |                  |
|---|------------------|
| Net liability for unpaid loss and allocated loss adjustment expenses for the accident years presented | \$ 59,421        |
| All outstanding liabilities before 2010, net of reinsurance   | 143              |
| Liabilities for loss and allocated loss adjustment expenses, net of reinsurance                       | <u>\$ 59,564</u> |

Reported claim counts are measured on an occurrence or per event basis. A single claim occurrence could result in more than one loss type or claimant; however, the Company counts claims at the occurrence level as a single claim regardless of the number of claimants or claim features involved.

The reconciliation of the net incurred and paid loss development tables to the loss and LAE reserves in the consolidated balance sheet is as follows:

| (in thousands)  | As of September 30, 2019 |
|---|--------------------------|
| Liabilities for loss and loss adjustment expenses, net of reinsurance | \$ 59,564                |
| Total reinsurance recoverable on unpaid losses                        | 15,412                   |
| Unallocated loss adjustment expenses                                  | 2,433                    |
| Total gross liability for loss and LAE reserves                       | <u>\$ 77,409</u>         |

**Reinsurance**

The Company's quota share reinsurance treaties are on a July 1 through June 30 fiscal year basis. The Company's quota share reinsurance treaties in effect during the nine months ended September 30, 2019 and 2018 for its personal lines business, which primarily consists of homeowners' policies, were covered under a treaty covering a two-year period from July 1, 2017 through June 30, 2019 ("2017/2019 Treaty"). The treaty in effect during the nine months ended September 30, 2019 was covered under the July 1, 2018 through June 30, 2019 treaty year ("2018/2019 Treaty Year"). The treaties in effect during the nine months ended September 30, 2018 were covered under the July 1, 2017 through June 30, 2018 treaty year ("2017/2018 Treaty Year") and the 2018/2019 Treaty Year that began on July 1, 2018.

In August 2018, the Company terminated its contract with one of the reinsurers that was a party to the 2017/2019 Treaty. This termination was retroactive to July 1, 2018 and had the effect of reducing the quota share ceding rate to 10% under the 2018/2019 Treaty Year from 20% under the 2017/2018 Treaty Year.

Effective July 1, 2019, the 2017/2019 Treaty and commercial umbrella treaty expired on a run-off basis; these treaties were not renewed. The Company entered into new excess of loss and catastrophe reinsurance treaties effective July 1, 2019. Material terms for reinsurance treaties in effect for the treaty years shown below are as follows:

| Line of Business  | Treaty Year         |                     |                     |
|---|---------------------|---------------------|---------------------|
|   | July 1, 2019        | July 1, 2018        | July 1, 2017        |
|   | to<br>June 30, 2020 | to<br>June 30, 2019 | to<br>June 30, 2018 |
| <b>Personal Lines:</b>  |                     |                     |                     |
| Homeowners, dwelling fire and canine legal liability                            |                     |                     |                     |
| Quota share treaty:   |                     |                     |                     |
| Percent ceded   | None                | 10%                 | 20%                 |
| Risk retained   | \$ 1,000,000        | \$ 900,000          | \$ 800,000          |
| Losses per occurrence subject to quota share reinsurance coverage               | None                | \$ 1,000,000        | \$ 1,000,000        |
| Excess of loss coverage and facultative facility above quota share coverage (1) | \$ 10,000,000       | \$ 9,000,000        | \$ 9,000,000        |
|   |                     | in excess of        | in excess of        |
| Total reinsurance coverage per occurrence                                       | \$ 9,000,000        | \$ 9,100,000        | \$ 9,200,000        |
| Losses per occurrence subject to reinsurance coverage                           | \$ 10,000,000       | \$ 10,000,000       | \$ 10,000,000       |
| Expiration date   | June 30, 2020       | June 30, 2019       | June 30, 2019       |
| <b>Personal Umbrella</b>  |                     |                     |                     |
| Quota share treaty:   |                     |                     |                     |
| Percent ceded - first \$1,000,000 of coverage                                   | 90%                 | 90%                 | 90%                 |
| Percent ceded - excess of \$1,000,000 dollars of coverage                       | 100%                | 100%                | 100%                |
| Risk retained   | \$ 100,000          | \$ 100,000          | \$ 100,000          |
| Total reinsurance coverage per occurrence                                       | \$ 4,900,000        | \$ 4,900,000        | \$ 4,900,000        |
| Losses per occurrence subject to quota share reinsurance coverage               | \$ 5,000,000        | \$ 5,000,000        | \$ 5,000,000        |
| Expiration date   | June 30, 2020       | June 30, 2019       | June 30, 2018       |
| <b>Commercial Lines:</b>  |                     |                     |                     |
| General liability commercial policies   |                     |                     |                     |
| Quota share treaty  |                     |                     |                     |
| Risk retained   | \$ 750,000          | \$ 750,000          | \$ 750,000          |
| Excess of loss coverage above risk retained                                     | \$ 3,750,000        | \$ 3,750,000        | \$ 3,750,000        |
|   | in excess of        | in excess of        | in excess of        |
| Total reinsurance coverage per occurrence                                       | \$ 3,750,000        | \$ 3,750,000        | \$ 3,750,000        |
| Losses per occurrence subject to reinsurance coverage                           | \$ 4,500,000        | \$ 4,500,000        | \$ 4,500,000        |
| <b>Commercial Umbrella</b>  |                     |                     |                     |
| Quota share treaty:   |                     |                     |                     |
| Percent ceded - first \$1,000,000 of coverage                                   | None                | 90%                 | 90%                 |
| Percent ceded - excess of \$1,000,000 of coverage                               |                     | 100%                | 100%                |
| Risk retained   |                     | \$ 100,000          | \$ 100,000          |
| Total reinsurance coverage per occurrence                                       |                     | \$ 4,900,000        | \$ 4,900,000        |
| Losses per occurrence subject to quota share reinsurance coverage               |                     | \$ 5,000,000        | \$ 5,000,000        |
| Expiration date   |                     | June 30, 2019       | June 30, 2018       |
| <b>Catastrophe Reinsurance:</b>   |                     |                     |                     |
| Initial loss subject to personal lines quota share treaty                       | None                | \$ 5,000,000        | \$ 5,000,000        |
| Risk retained per catastrophe occurrence (2)                                    | \$ 7,500,000        | \$ 4,500,000        | \$ 4,000,000        |
| Catastrophe loss coverage in excess of quota share coverage (3)                 | \$ 602,500,000      | \$ 445,000,000      | \$ 315,000,000      |
| Reinstatement premium protection (4)(5)(6)                                      | Yes                 | Yes                 | Yes                 |

(1) For personal lines, includes the addition of an automatic facultative facility allowing KICO to obtain homeowners single risk coverage up to \$10,000,000 in total insured value, which covers direct losses from \$3,500,000 to \$10,000,000.

(2) Plus losses in excess of catastrophe coverage.

(3) Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts. Duration of 168 consecutive hours for a catastrophe occurrence from windstorm, hail, tornado, hurricane and cyclone.

(4) Effective July 1, 2017, reinstatement premium protection for \$145,000,000 of catastrophe coverage in excess of \$5,000,000.

(5) Effective July 1, 2018, reinstatement premium protection for \$210,000,000 of catastrophe coverage in excess of \$5,000,000.

(6) Effective July 1, 2019, reinstatement premium protection for \$292,500,000 of catastrophe coverage in excess of \$7,500,000.

The single maximum risks per occurrence to which the Company is subject under the treaty year shown below are as follows:

| Treaty             | July 1, 2019 - June 30, 2020 |               |
|--------------------|------------------------------|---------------|
|                    | Range of Loss                | Risk Retained |
| Personal Lines (1) | Initial \$1,000,000          | \$1,000,000   |
|                    | \$1,000,000 - \$10,000,000   | None(2)       |
|                    | Over \$10,000,000            | 100%          |
| Personal Umbrella  | Initial \$1,000,000          | \$100,000     |
|                    | \$1,000,000 - \$5,000,000    | None          |
|                    | Over \$5,000,000             | 100%          |
| Commercial Lines   | Initial \$750,000            | \$750,000     |
|                    | \$750,000 - \$4,500,000      | None(3)       |
|                    | Over \$4,500,000             | 100%          |
| Catastrophe (4)    | Initial \$7,500,000          | \$7,500,000   |
|                    | \$7,500,000 - \$610,000,000  | None          |
|                    | Over \$610,000,000           | 100%          |

(1) Personal lines quota share treaty was eliminated effective July 1, 2019. The 2017/2019 Treaty expired on a run-off basis.

(2) Covered by excess of loss treaties up to \$3,500,000 and by facultative facility from \$3,500,000 to \$10,000,000.

(3) Covered by excess of loss treaties.

(4) Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts.

The single maximum risks per occurrence to which the Company is subject under the treaties effective July 1, 2018 and 2017 are as follows:

| Treaty              | July 1, 2018 - June 30, 2019 |               | July 1, 2017 - June 30, 2018 |               |
|---------------------|------------------------------|---------------|------------------------------|---------------|
|                     | Range of Loss                | Risk Retained | Range of Loss                | Risk Retained |
| Personal Lines (1)  | Initial \$1,000,000          | \$900,000     | Initial \$1,000,000          | \$800,000     |
|                     | \$1,000,000 - \$10,000,000   | None(2)       | \$1,000,000 - \$10,000,000   | None(2)       |
|                     | Over \$10,000,000            | 100%          | Over \$10,000,000            | 100%          |
| Personal Umbrella   | Initial \$1,000,000          | \$100,000     | Initial \$1,000,000          | \$100,000     |
|                     | \$1,000,000 - \$5,000,000    | None          | \$1,000,000 - \$5,000,000    | None          |
|                     | Over \$5,000,000             | 100%          | Over \$5,000,000             | 100%          |
| Commercial Lines    | Initial \$750,000            | \$750,000     | Initial \$750,000            | \$750,000     |
|                     | \$750,000 - \$4,500,000      | None(3)       | \$750,000 - \$4,500,000      | None(3)       |
|                     | Over \$4,500,000             | 100%          | Over \$4,500,000             | 100%          |
| Commercial Umbrella | Initial \$1,000,000          | \$100,000     | Initial \$1,000,000          | \$100,000     |
|                     | \$1,000,000 - \$5,000,000    | None          | \$1,000,000 - \$5,000,000    | None          |
|                     | Over \$5,000,000             | 100%          | Over \$5,000,000             | 100%          |
| Catastrophe (4)     | Initial \$5,000,000          | \$4,500,000   | Initial \$5,000,000          | \$4,000,000   |
|                     | \$5,000,000 - \$450,000,000  | None          | \$5,000,000 - \$320,000,000  | None          |
|                     | Over \$450,000,000           | 100%          | Over \$320,000,000           | 100%          |

(1) Treaty for July 1, 2017 – June 30, 2018 and July 1, 2018 – June 30, 2019 is a two-year treaty with expiration date of June 30, 2019.

(2) Covered by excess of loss treaties up to \$3,500,000 and by facultative facility from \$3,500,000 to \$10,000,000.

(3) Covered by excess of loss treaties.

(4) Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts.

The Company's reinsurance program has been structured to enable the Company to grow its premium volume while maintaining regulatory capital and other financial ratios generally within or below the expected ranges used for regulatory oversight purposes. The reinsurance program also provides income as a result of ceding commissions earned pursuant to the quota share reinsurance contracts. The Company's participation in reinsurance arrangements does not relieve the Company of its obligations to policyholders.

## Ceding Commission Revenue

The Company earns ceding commission revenue under its quota share reinsurance agreements based on: (i) a fixed provisional commission rate at which provisional ceding commissions are earned, and (ii) a sliding scale of commission rates and ultimate treaty year loss ratios on the policies reinsured under each of these agreements based upon which contingent ceding commissions are earned. The sliding scale includes minimum and maximum commission rates in relation to specified ultimate loss ratios. The commission rate and contingent ceding commissions earned increases when the estimated ultimate loss ratio decreases and, conversely, the commission rate and contingent ceding commissions earned decreases when the estimated ultimate loss ratio increases.

The Company's estimated ultimate treaty year loss ratios (the "Loss Ratio(s)") for treaties in effect during the nine months ended September 30, 2019 are attributable to contracts under the 2017/2019 Treaty for the 2018/2019 Treaty Year, which expired on June 30, 2019 and was not renewed. The Loss Ratios for treaties in effect for the three months ended September 30, 2018 are attributable to contracts under the 2017/2019 Treaty for the 2018/2019 Treaty Year. The Loss Ratios for treaties in effect for the nine months ended September 30, 2018 are attributable to contracts under the 2017/2019 Treaty for both the 2017/2018 Treaty Year and the 2018/2019 Treaty Year.

### *Treaty in effect during the three months and nine months ended September 30, 2019*

There was no current quota share treaty in effect during the three months ended September 30, 2019, and therefore no current contingent commission adjustment was recorded for the three months ended September 30, 2019. Under the 2017/2019 Treaty, the Company received an upfront fixed provisional rate that was only subject to a sliding scale contingent adjustment based upon Loss Ratio for the 2017/2018 Treaty Year ("Loss Period"). Under this arrangement, the Company earned provisional ceding commissions that are subject to later adjustment dependent on changes to the estimated Loss Period Loss Ratio for the 2017/2019 Treaty. The Company's Loss Period Loss Ratios attributable to the 2017/2019 Treaty reached the maximum contractual level during the six months ended June 30, 2018, and therefore no contingent commission adjustment was recorded for the nine months ended September 30, 2019.

### *Treaties in effect for the three months and nine months ended September 30, 2018*

Under the 2017/2019 Treaty, the Company received an upfront fixed provisional rate that was only subject to a sliding scale contingent adjustment based upon Loss Ratio for the 2017/2018 Treaty Year ("Loss Period"). The Company's Loss Period Loss Ratios attributable to the 2017/2019 Treaty reached the maximum contractual level during the six months ended June 30, 2018, and therefore no contingent commission adjustment was recorded for the three months ended September 30, 2018. For the nine months ended September 30, 2018, the Company incurred negative contingent ceding commissions as a result of the Loss Period Loss Ratio for the 2017/2019 Treaty, which reduced contingent ceding commissions earned.

In addition to the treaties that were in effect during the three months and nine months ended September 30, 2019 and 2018, the Loss Ratios from prior years' treaties are subject to change as incurred losses from those periods increase or decrease, resulting in an increase or decrease in the commission rate and contingent ceding commissions earned.

Ceding commission revenue consists of the following:

|                                       | Three months ended  |                     | Nine months ended   |                     |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                       | September 30,       |                     | September 30,       |                     |
|                                       | 2019                | 2018                | 2019                | 2018                |
| Provisional ceding commissions earned | \$ 1,320,069        | \$ 1,255,034        | \$ 4,001,294        | \$ 5,468,314        |
| Contingent ceding commissions earned  | (290,487)           | (210,505)           | (1,018,334)         | (1,037,459)         |
|                                       | <u>\$ 1,029,582</u> | <u>\$ 1,044,529</u> | <u>\$ 2,982,960</u> | <u>\$ 4,430,855</u> |

Provisional ceding commissions are settled monthly. Balances due from reinsurers for contingent ceding commissions on quota share treaties are settled annually based on the Loss Ratio of each treaty year that ends on June 30. As discussed above, the Loss Ratios from prior years' treaties are subject to change as incurred losses from those periods develop, resulting in an increase or decrease in the commission rate and contingent ceding commissions earned. As of September 30, 2019 and December 31, 2018, net contingent ceding commissions payable to reinsurers under all treaties was approximately \$3,060,000 and \$1,581,000, respectively, which is recorded in reinsurance balances payable on the accompanying condensed consolidated balance sheets.

## Commercial Lines of Business

In July 2019, the Company made the decision that it will no longer underwrite Commercial Lines risks. These include Business Owners, Artisans ("CraftPak"), Special Multi-Peril, and Commercial Umbrella policies. The Company had 6,793 commercial lines policies in force as of September 30, 2019 and approximately \$12,179,000 in earned premiums for the nine months ended September 30, 2019. As of June 30, 2019 the Company had 7,770 commercial lines policies in force.

For the nine months ended September 30, 2019, these policies represented approximately 12% of net premiums earned. As of September 30, 2019, claims from these commercial lines represent 46% of loss and loss adjustment expense reserves net of reinsurance recoverables. In force policies for these lines will be non-renewed at the end of their current annual terms. All existing inforce Commercial Lines policies will expire by September 30, 2020.

## Note 7 – Debt

### Federal Home Loan Bank

In July 2017, KICO became a member of, and invested in, the Federal Home Loan Bank of New York (“FHLBNY”). The aggregate investment in dividend bearing common stock was \$15,180 as of September 30, 2019. FHLBNY members have access to a variety of flexible, low cost funding through FHLBNY’s credit products, enabling members to customize advances, which are to be fully collateralized. Eligible collateral to pledge to FHLBNY includes residential and commercial mortgage backed securities, along with U.S. Treasury and agency securities. See Note 3 – Investments for eligible collateral held in a designated custodian account available for future advances. Advances are limited to 5% of KICO’s net admitted assets as of the previous quarter and are due and payable within one year of borrowing. The maximum allowable advance as of September 30, 2019 was approximately \$11,502,000. Advances are limited to 90% of the amount of available collateral, which was approximately \$4,630,000 as of September 30, 2019. There were no borrowings under this facility during the nine months ended September 30, 2019.

### Long-term Debt

On December 19, 2017, the Company issued \$30 million of its 5.50% Senior Unsecured Notes due December 30, 2022 (the “Notes”) in an underwritten public offering. Interest is payable semi-annually in arrears on June 30 and December 30 of each year, which began on June 30, 2018 at the rate of 5.50%. The net proceeds of the issuance were \$29,121,630, net of discount of \$163,200 and transaction costs of \$715,170, for an effective yield of 5.67%. The balance of long-term debt as of September 30, 2019 and December 31, 2018 is as follows:

|                              | <u>September 30,</u><br><u>2019</u> | <u>December 31,</u><br><u>2018</u> |
|------------------------------|-------------------------------------|------------------------------------|
| 5.50% Senior Unsecured Notes | \$ 30,000,000                       | \$ 30,000,000                      |
| Discount                     | (105,465)                           | (129,796)                          |
| Issuance costs               | (467,149)                           | (574,953)                          |
| Long-term debt, net          | <u>\$ 29,427,386</u>                | <u>\$ 29,295,251</u>               |

The Notes are unsecured obligations of the Company and are not the obligations of or guaranteed by any of the Company’s subsidiaries. The Notes rank senior in right of payment to any of the Company’s existing and future indebtedness that is by its terms expressly subordinated or junior in right of payment to the Notes. The Notes rank equally in right of payment to all of the Company’s existing and future senior indebtedness, but will be effectively subordinated to any secured indebtedness to the extent of the value of the collateral securing such secured indebtedness. In addition, the Notes will be structurally subordinated to the indebtedness and other obligations of the Company’s subsidiaries. The Company may redeem the Notes, at any time in whole or from time to time in part, at the redemption price equal to the greater of: (i) 100% of the principal amount of the Notes to be redeemed; and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes to be redeemed that would be due if the Notes matured on the applicable redemption date (exclusive of interest accrued to the applicable redemption date) discounted to the redemption date on a semi-annual basis at the Treasury Rate, plus 50 basis points.

On December 20, 2017, the Company used \$25,000,000 of the net proceeds from the offering to contribute capital to KICO in order to support additional growth. The remainder of the net proceeds are being used for general corporate purposes. A registration statement relating to the debt issued in the offering was filed with the SEC, which became effective on November 28, 2017.

## Note 8 – Stockholders’ Equity

### Dividends Declared and Paid

Dividends declared and paid on common stock were \$2,827,276 and \$3,204,813 for the nine months ended September 30, 2019 and 2018, respectively. The Company’s Board of Directors approved a quarterly dividend on November 11, 2019 of \$0.0625 per share payable in cash on December 13, 2019 to stockholders of record as of November 29, 2019 (see Note 13).

## Stock Options

Effective August 12, 2014, the Company adopted the 2014 Equity Participation Plan (the “2014 Plan”) pursuant to which a maximum of 700,000 shares of Common Stock of the Company are authorized to be issued pursuant to the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock and stock bonuses. Incentive stock options granted under the 2014 Plan expire no later than ten years from the date of grant (except no later than five years for a grant to a 10% stockholder). The Board of Directors or the Compensation Committee determines the expiration date with respect to non-statutory stock options and the vesting provisions for restricted stock granted under the 2014 Plan.

The results of operations for the three months ended September 30, 2019 and 2018 include stock-based compensation expense related to the 2014 Plan totaling approximately \$19,800 and \$1,000, respectively. The results of operations for the nine months ended September 30, 2019 and 2018 include stock-based compensation expense related to stock options totaling approximately \$20,800 and \$5,000, respectively. Stock-based compensation expense related to stock options is net of estimated forfeitures of approximately 17% for the three months and nine months ended September 30, 2019 and 2018. Such amounts have been included in the condensed consolidated statements of operations and comprehensive income (loss) within other operating expenses.

Stock-based compensation expense for the nine months ended September 30, 2019 and 2018 is the estimated fair value of options granted, amortized on a straight-line basis over the requisite service period, for the entire portion of the award less an estimate for anticipated forfeitures. The Company uses the “simplified” method to estimate the expected term of the options because the Company’s historical share option exercise experience does not provide a reasonable basis upon which to estimate expected term. The weighted average estimated fair value of stock options granted during the nine months ended September 30, 2019 was \$1.91 per share. No options were granted during the nine months September 30, 2018. The fair value of stock options at the grant date was estimated using the Black-Scholes option-pricing model. The following weighted average assumptions were used for grants during the following periods:

|                         | Nine months ended |      |
|-------------------------|-------------------|------|
|                         | September 30,     |      |
|                         | 2019              | 2018 |
| Dividend Yield          | 2.87%             | na   |
| Volatility              | 36.11%            | na   |
| Risk-Free Interest Rate | 1.61%             | na   |
| Expected Life           | 3.25 years        | na   |

The Black-Scholes Option Valuation Model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company’s stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management’s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our stock options.

A summary of stock option activity under the Company’s 2014 Plan for the nine months ended September 30, 2019 is as follows:

| Stock Options                                | Number of Shares | Weighted Average Exercise Price per Share | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|--|------------------|---|---|---------------------------|
| Outstanding at January 1, 2019               | 37,500           | \$ 8.36                                   | 2.24  | \$ 349,950                |
| Granted                                      | 50,000           | \$ 8.72                                   |   | \$ -                      |
| Exercised                                    | (3,000)          | \$ 7.85                                   |   | \$ 6,270                  |
| Forfeited                                    | (2,500)          | \$ 7.85                                   | 2.04  | \$ 13,588                 |
| Outstanding at September 30, 2019            | 82,000           | \$ 8.61                                   | 3.63  | \$ 11,390                 |
| Vested and Exercisable at September 30, 2019 | 50,000           | \$ 8.45                                   | 2.41  | \$ 15,075                 |

The aggregate intrinsic value of options outstanding and options exercisable at September 30, 2019 is calculated as the difference between the exercise price of the underlying options and the market price of the Company’s Common Stock for the options that had exercise prices that were lower than the \$8.52 closing price of the Company’s Common Stock on September 30, 2019. The total intrinsic value of options exercised during the nine months ended September 30, 2019 was \$6,270, determined as of the date of exercise. The total intrinsic value of options forfeited during the nine months ended September 30, 2019 was \$13,588, determined as of the date of forfeiture.

Participants in the 2014 Plan may exercise their outstanding vested options, in whole or in part, by having the Company reduce the number of shares otherwise issuable by a number of shares having a fair market value equal to the exercise price of the option being exercised (“Net Exercise”), or by exchanging a number of shares owned for a period of greater than one year having a fair market value equal to the exercise price of the option being exercised (“Share Exchange”). The Company received cash proceeds of \$23,552 from the exercise of options for the purchase of 3,000 shares of Common Stock during the nine months ended September 30, 2019. The Company received cash proceeds of \$74,139 from the exercise of options for the purchase of 12,750 shares of Common Stock during the nine months ended September 30, 2018. The Company received 7,855 shares from the exercise of options under a Share Exchange for the purchase of 30,000 shares of Common Stock during the nine months ended September 30, 2018. The remaining 132,500 options exercised during the nine months ended September 30, 2018 were Net Exercises, resulting in the issuance of 54,231 shares of Common Stock.

As of September 30, 2019, the fair value of unamortized compensation cost related to unvested stock option awards was approximately \$59,000. Unamortized compensation cost as of September 30, 2019 is expected to be recognized over a remaining weighted-average vesting period of 1.99 years.

As of September 30, 2019, there were 390,338 shares reserved for grants under the 2014 Plan.

## Restricted Stock Awards

A summary of the restricted common stock activity under the Company's 2014 Plan for the nine months ended September 30, 2019 is as follows:

| Restricted Stock Awards       | Shares         | Weighted<br>Average Grant<br>Date Fair Value<br>per Share | Aggregate Fair<br>Value |
|-------------------------------|----------------|---|-------------------------|
| Balance at January 1, 2019    | 120,499        | \$ 17.66  | \$ 2,129,175            |
| Granted                       | 120,586        | \$ 15.51  | \$ 1,870,487            |
| Vested                        | (44,410)       | \$ 17.18  | \$ (763,103)            |
| Forfeited                     | (10,459)       | \$ 15.79  | \$ (165,171)            |
| Balance at September 30, 2019 | <u>186,216</u> | <u>\$ 16.47</u>   | <u>\$ 3,071,388</u>     |

Fair value was calculated using the closing price of the Company's Common Stock on the grant date. For the three months ended September 30, 2019 and 2018, stock-based compensation for these grants was approximately \$388,000 and \$196,000, respectively, which is included in other operating expenses on the accompanying condensed consolidated statements of operations and comprehensive income (loss). For the nine months ended September 30, 2019 and 2018, stock-based compensation for these grants of approximately \$1,096,000 and \$477,000, respectively, for these grants is included in other operating expenses in the condensed consolidated statements of operations and comprehensive income (loss). These amounts reflect the Company's accounting expense and do not correspond to the actual value that will be recognized by the directors, executives and employees.

**Note 9 – Income Taxes**

The Company files a consolidated U.S. federal income tax return that includes all wholly owned subsidiaries. State tax returns are filed on a consolidated or separate return basis depending on applicable laws. The Company records adjustments related to prior years' taxes during the period when they are identified, generally when the tax returns are filed. The effect of these adjustments on the current and prior periods (during which the differences originated) is evaluated based upon quantitative and qualitative factors and are considered in relation to the consolidated financial statements taken as a whole for the respective periods.

Deferred tax assets and liabilities are determined using the enacted tax rates applicable to the period the temporary differences are expected to be recovered. Accordingly, the current period income tax provision can be affected by the enactment of new tax rates. The net deferred income taxes on the balance sheets reflect temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and income tax purposes, tax effected at various rates depending on whether the temporary differences are subject to federal taxes, state taxes, or both.

Significant components of the Company's deferred tax assets and liabilities are as follows:

|  | <u>September 30,</u><br><u>2019</u> | <u>December 31,</u><br><u>2018</u> |
|--|-------------------------------------|------------------------------------|
| Deferred tax asset:  |                                     |                                    |
| Net operating loss carryovers (1)                                | \$ 2,418,344                        | \$ 90,438                          |
| Claims reserve discount  | 526,114                             | 343,905                            |
| Unearned premium   | 3,735,054                           | 3,145,682                          |
| Deferred ceding commission revenue                               | 384,063                             | 564,202                            |
| Other  | 680,204                             | 383,733                            |
| Total deferred tax assets  | <u>7,743,779</u>                    | <u>4,527,960</u>                   |
| Deferred tax liability:  |                                     |                                    |
| Investment in KICO (2)   | 759,543                             | 759,543                            |
| Deferred acquisition costs                                       | 4,303,229                           | 3,760,625                          |
| Intangibles  | 105,000                             | 140,700                            |
| Depreciation and amortization                                    | 515,487                             | 664,194                            |
| Net unrealized gains (losses) of securities - available for sale | 1,520,225                           | (1,151,335)                        |
| Total deferred tax liabilities                                   | <u>7,203,484</u>                    | <u>4,173,727</u>                   |
| Net deferred income tax asset                                    | <u>\$ 540,295</u>                   | <u>\$ 354,233</u>                  |

(1) The deferred tax assets from net operating loss carryovers (“NOL”) are as follows:

| Type of NOL   | September 30,<br>2019 | December 31,<br>2018 | Expiration        |
|---|-----------------------|----------------------|-------------------|
| Federal only, current year                                  | \$ 2,347,962          | \$ -                 | None              |
| Amount subject to Annual Limitation, federal only           | -                     | 2,100                | December 31, 2019 |
| Total federal only  | <u>2,347,962</u>      | <u>2,100</u>         |                   |
| State only (A)  | 1,454,929             | 1,305,365            | December 31, 2039 |
| Valuation allowance   | <u>(1,384,547)</u>    | <u>(1,217,027)</u>   |                   |
| State only, net of valuation allowance                      | <u>70,382</u>         | <u>88,338</u>        |                   |
| Total deferred tax asset from net operating loss carryovers | <u>\$ 2,418,344</u>   | <u>\$ 90,438</u>     |                   |

(A) Kingstone generates operating losses for state purposes and has prior year NOLs available. The state NOL as of September 30, 2019 and December 31, 2018 was approximately \$22,384,000 and \$20,083,000, respectively. KICO is not subject to state income taxes. KICO’s state tax obligations are paid through a gross premiums tax, which is included in the condensed consolidated statements of operations and comprehensive income (loss) within other underwriting expenses. A valuation allowance has been recorded due to the uncertainty of generating enough state taxable income to utilize 100% of the available state NOLs over their remaining lives, which expire between 2027 and 2039.

(2) Deferred tax liability – Investment in KICO

On July 1, 2009, the Company completed the acquisition of 100% of the issued and outstanding common stock of KICO (formerly known as Commercial Mutual Insurance Company (“CMIC”)) pursuant to the conversion of CMIC from an advance premium cooperative to a stock property and casualty insurance company. Pursuant to the plan of conversion, the Company acquired a 100% equity interest in KICO, in consideration for the exchange of \$3,750,000 principal amount of surplus notes of CMIC. In addition, the Company forgave all accrued and unpaid interest on the surplus notes as of the date of conversion. As of the date of acquisition, unpaid accrued interest on the surplus notes along with the accretion of the discount on the original purchase of the surplus notes totaled \$2,921,319 (together “Untaxed Interest”). As of the date of acquisition, the deferred tax liability on the Untaxed Interest was \$1,169,000. A temporary difference with an indefinite life exists when the parent has a lower carrying value of its subsidiary for income tax purposes. The deferred tax liability was reduced to \$759,543 upon the reduction of federal income tax rates as of December 31, 2017. The Company is required to maintain its deferred tax liability of \$759,543 related to this temporary difference until the stock of KICO is sold, or the assets of KICO are sold or KICO and the parent are merged.

In assessing the valuation of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. No valuation allowance against deferred tax assets has been established, except for NOL limitations, as the Company believes it is more likely than not the deferred tax assets will be realized based on the historical taxable income of KICO, or by offset to deferred tax liabilities.

The Company had no material unrecognized tax benefit and no adjustments to liabilities or operations were required. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the nine months ended September 30, 2019 and 2018. If any had been recognized these would have been reported in income tax expense.

Generally, taxing authorities may examine the Company’s tax returns for the three years from the date of filing. The Company’s tax returns for the years ended December 31, 2015 through December 31, 2018 remain subject to examination. The Company’s federal income tax return for the year ended December 31, 2016 has been examined by the Internal Revenue Service and was accepted as filed.

## Note 10 –Earnings/(Loss) Per Common Share

Basic net earnings/(loss) per common share is computed by dividing income/(loss) available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings/(loss) per common share reflect, in periods in which they have a dilutive effect, the impact of common shares issuable upon exercise of stock options as well as non-vested restricted stock awards. The computation of diluted earnings/(loss) per common share excludes those options with an exercise price in excess of the average market price of the Company's common shares during the periods presented.

The computation of diluted earnings/(loss) per common share excludes outstanding options in periods where the exercise of such options would be anti-dilutive. For the three months and nine months ended September 30, 2019, no options were included in the computation of diluted earnings/(loss) per common share as they would have been anti-dilutive for the relevant periods and, as a result, the weighted average number of common shares used in the calculation of diluted earnings per common share has not been adjusted for the effect of such options.

The reconciliation of the weighted average number of common shares used in the calculation of basic and diluted earnings/(loss) per common share follows:

|  | Three months ended |                   | Nine months ended |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | September 30,      |                   | September 30,     |                   |
|  | 2019               | 2018              | 2019              | 2018              |
| Weighted average number of shares outstanding  | 10,779,641         | 10,681,329        | 10,769,817        | 10,672,084        |
| Effect of dilutive securities, common share equivalents                                      |                    |                   |                   |                   |
| Stock options  | -                  | 98,749            | -                 | 100,628           |
| Restricted stock awards  | -                  | 11,045            | -                 | 7,878             |
| Weighted average number of shares outstanding, used for computing diluted earnings per share | <u>10,779,641</u>  | <u>10,791,123</u> | <u>10,769,817</u> | <u>10,780,590</u> |

## Note 11 - Commitments and Contingencies

### Litigation

From time to time, the Company is involved in various legal proceedings in the ordinary course of business. For example, to the extent a claim is asserted by a third party in a lawsuit against one of the Company's insureds covered by a particular policy, the Company may have a duty to defend the insured party against the claim. These claims may relate to bodily injury, property damage or other compensable injuries as set forth in the policy. Such proceedings are considered in estimating the liability for loss and LAE expenses.

On June 12, 2019, Phillip Woolgar filed a suit naming the Company and certain present or former officers and directors as defendants in a putative class action captioned *Woolgar v. Kingstone Companies et al.*, 19 cv 05500 (S.D.N.Y.), asserting claims under Section 10(b) of the Exchange Act and SEC Rule 10b-5 promulgated thereunder and Section 20(a) of the Exchange Act. Plaintiff seeks to represent a class of persons or entities that purchased Kingstone securities between March 14, 2018, and April 29, 2019, and alleges violations of the federal securities law in connection with the Company's April 29, 2019 announcement regarding losses related to winter catastrophe events. The lawsuit alleges that the Company failed to disclose that it did not adequately follow industry best practices related to claims handling and thus did not record sufficient claim reserves, and that as a result, Defendants' positive statements about the Company's business, operations and prospects misled investors. Plaintiff seeks, among other things, an undetermined amount of money damages. The Company believe the lawsuit to be without merit. The Company has not established an accrual for this matter as a loss is not considered to be probable and reasonably estimable. It is the opinion of management that facts known at the present time do not indicate that such litigation will have a material adverse impact on the Company's results of operations, financial position, or cash flows.

## Office Lease

The Company enters into lease agreements for real estate that is primarily used for office space in the ordinary course of business. These leases are accounted for as operating leases, whereby lease expense is recognized on a straight-line basis over the term of the lease. See Note 2 - Accounting Policies for additional information regarding the accounting for leases.

The Company is a party to a non-cancellable operating lease, dated March 27, 2015, for its office facility for KICO located in Valley Stream, New York expiring March 31, 2024.

On July 8, 2019, the Company entered into a lease agreement for an additional office facility for Cosi located in Valley Stream, New York under a non-cancelable operating lease. In addition to the base rental costs, occupancy lease agreements generally provide for rent escalations resulting from increased assessments from real estate taxes and other charges. The lease commencement date will be determined upon the completion of landlord provided construction, which the Company expects to be on or about November 15, 2019. The lease has a term of seven years and two months expiring December 31, 2026.

In addition to the base rental costs, occupancy lease agreements generally provide for rent escalations resulting from increased assessments from real estate taxes and other charges. This lease is accounted for as an operating lease, whereby lease expense is recognized on a straight-line basis over the term of the lease.

Additional information regarding the Company's office operating lease (exclusive of the Cosi lease facility discussed above, which has not yet commenced) is as follows:

|                      | Three months<br>ended<br>September 30,<br>2019 | Nine months<br>ended<br>September 30,<br>2019 |
|----------------------|--|---|
| <b>Lease cost</b>    |  |   |
| Operating lease      | \$ 41,342                                      | \$ 124,026                                    |
| Short-term leases    | -  | -   |
| Total lease cost (1) | <u>\$ 41,342</u>                               | <u>\$ 124,026</u>                             |

### **Other information on operating lease**

#### **Cash payments included in the measurement of lease**

|  |           |            |
|--|-----------|------------|
| liability reported in operating cash flows | \$ 42,827 | \$ 127,034 |
| Discount rate                              | 5.50%     | 5.50%      |
| Remaining lease term in years              | 5 years   | 5 years    |

(1) Included in the condensed consolidated statements of operations and comprehensive income (loss) within other underwriting expenses.

The following table presents the contractual maturities of the Company's lease liabilities as of September 30, 2019:

|                                   | <b>For the Year<br/>Ending<br/>December 31,</b> | <b>Total</b>        |
|-----------------------------------|---|---------------------|
| Remainder of 2019                 |   | \$ 42,827           |
| 2020                              |   | 255,624             |
| 2021                              |   | 264,571             |
| 2022                              |   | 273,831             |
| 2023                              |   | 283,415             |
| Thereafter                        |   | 333,654             |
| Total undiscounted lease payments |   | 1,453,922           |
| Less: present value adjustment    |   | 230,834             |
| Operating lease liability         |   | <u>\$ 1,223,088</u> |

Rent expense for the three months ended September 30, 2019 and 2018 amounted to \$41,342 for each period. Rent expense for the nine months ended September 30, 2019 and 2018 amounted to \$124,026 for each period. Rent expense is included in the accompanying condensed consolidated statements of operations and comprehensive income (loss) within other underwriting expenses.

#### Employment Agreements

##### *Dale A. Thatcher*

Effective July 19, 2019 (the "Separation Date"), Dale A. Thatcher retired and resigned his positions as Chief Executive Officer and President of the Company and KICO. At such time, he also resigned his positions on the Board of Directors of each of the Company and KICO. Effective upon Mr. Thatcher's separation from employment, the Board appointed Barry B. Goldstein, former Chief Executive Officer and Executive Chairman of the Board of Directors, to the position of Chief Executive Officer and President of each of the Company and KICO. Mr. Goldstein previously served as Chief Executive Officer and President of the Company from March 2001 through December 31, 2018, and as Chief Executive Officer and President of KICO from January 2012 through December 31, 2018.

In connection with his separation from employment, each of the Company and KICO entered into an Agreement and General Release (the "Separation Agreement") with Mr. Thatcher. Pursuant to the Separation Agreement, the Company and KICO shall collectively provide the following payments and benefits to Mr. Thatcher in full satisfaction of all payments and benefits and other amounts due to him under the terms of the existing employment agreements upon his separation from employment: (i) an amount equal to \$381,111 (representing the amount of base salary he would have received had he remained employed through March 31, 2020), (ii) an amount equal to \$5,000 in full satisfaction for any bonus payments payable under the existing employment agreements, (iii) continuing group health coverage commencing on the Separation Date and ending on March 31, 2020, and (iv) continued vesting of all previously granted but unvested stock awards as of the Separation Date (Mr. Thatcher shall not be entitled to any further grants of stock awards after the Separation Date). In addition, the Company and KICO agreed to provide Mr. Thatcher with a severance payment of \$20,000 in consideration for a release. As required by the employment agreements, Mr. Thatcher covenanted that, for a period of three years following the Separation Date, he shall not accept any operating executive role with another property and casualty insurance company.

##### *Barry Goldstein, President, Chief Executive Officer and Executive Chairman of the Board*

On October 14, 2019, the Company and Barry B. Goldstein, the Company's President, Chief Executive Officer and Executive Chairman of the Board, entered into a Second Amended and Restated Employment Agreement (the "Amended Employment Agreement"). The Amended Employment Agreement is effective as of January 1, 2020 and expires on December 31, 2022. The Amended Employment Agreement extends the expiration date of the employment agreement in effect for Mr. Goldstein from December 31, 2021 to December 31, 2022.

Pursuant to the Amended Employment Agreement, Mr. Goldstein is entitled to receive an annual base salary of \$500,000 and an annual bonus equal to 6% of the Company's consolidated income from operations before taxes, exclusive of the Company's consolidated net investment income (loss), net unrealized gains (losses) on equity securities and net realized gains (losses) on investments, up to a maximum of 2.5 times his base salary. In addition, pursuant to the Amended Employment Agreement, Mr. Goldstein is entitled to receive a long-term compensation award ("LTC") of between \$945,000 and \$2,835,000 based on a specified minimum increase in the Company's adjusted book value per share (as defined in the Amended Employment Agreement) as of December 31, 2022 as compared to December 31, 2019 (with the maximum LTC payment being due if the average per annum increase is at least 14%). Further, pursuant to the Amended Employment Agreement, in the event that Mr. Goldstein's employment is terminated by the Company without cause or he resigns for good reason (each as defined in the Amended Employment Agreement), Mr. Goldstein would be entitled to receive his base salary, the 6% bonus and the LTC payment for the remainder of the term. Mr. Goldstein would be entitled, under certain circumstances, to a payment equal to 3.82 times his then annual salary, the target LTC payment of \$1,890,000 and his accrued 6% bonus in the event of the termination of his employment following a change of control of the Company.

Pursuant to the Amended Employment Agreement, Mr. Goldstein will be entitled to receive a grant, under the terms of the Company's 2014 Plan, during January 2020, of a number of shares of restricted stock determined by dividing \$1,250,000 by the fair market value of the Company's common stock on the date of grant. The January 2020 grant will become vested with respect to one-third of the award on each of the first and second anniversaries of the grant date and on December 31, 2022 based on continued provision of services on each vesting date. Also pursuant to the Amended Employment Agreement, Mr. Goldstein will be entitled to receive a grant, under the terms of the 2014 Plan, during January 2021, of a number of shares of restricted stock determined by dividing \$1,500,000 by the fair market value of the Company's common stock on the date of grant. The January 2021 grant will become vested with respect to one-half of the award on each of the first anniversary of the grant date and on December 31, 2022 based on continued provision of services on each vesting date. Further, pursuant to the Amended Employment Agreement, Mr. Goldstein will be entitled to receive a grant, under the terms of the 2014 Plan, during each of 2020, 2021 and 2022, of a number of shares of restricted stock determined by dividing \$136,500 by the fair market value of the Company's common stock on the date of grant. The 2020 grant will become vested with respect to one-third of the award on each of the first and second anniversaries of the grant date and on December 31, 2022. The 2021 grant will become vested with respect to one-half of the award on each of the first anniversary of the grant date and on December 31, 2022. The 2022 grant will become vested on December 31, 2022.

*Meryl Golden, Chief Operating Officer*

On September 16, 2019, the Company and Meryl Golden entered into an employment agreement (the "Golden Employment Agreement") pursuant to which Ms. Golden serves as the Company's Chief Operating Officer. Ms. Golden also serves KICO's Chief Operating Officer. The Golden Employment Agreement became effective as of September 25, 2019 and expires on December 31, 2021.

Pursuant to the Golden Employment Agreement, Ms. Golden is entitled to receive an annual salary of \$500,000. The Golden Employment also provides for the grant on the effective date of a five year option for the purchase of 50,000 shares of the Company's common stock pursuant to the 2014 Plan. The options granted will vest in three equal installments, with the first installment vesting on the grant date, and the remaining installments vesting on the first and second anniversaries following the grant date, subject to the terms of the option grant agreement between the Company and Ms. Golden.

#### **Note 12 – Deferred Compensation Plan**

On June 18, 2018, the Company adopted the Kingstone Companies, Inc. Deferred Compensation Plan (the "Deferred Compensation Plan"). The Deferred Compensation Plan is offered to a select group ("Participants"), consisting of management and highly compensated employees as a method of recognizing and retaining such Participants. The Deferred Compensation Plan provides for eligible Participants to elect to defer up to 75% of their base compensation and up to 100% of bonuses and other compensation and to have such deferred amounts deemed to be invested in specified investment options. In addition to the Participant deferrals, the Company may choose to make matching contributions to some or all of the Participants in the Deferred Compensation Plan to the extent the Participant did not receive the maximum matching or non-elective contributions permissible under the Company's 401(k) Plan due to limitations under the Internal Revenue Code or the 401(k) Plan. Participants may elect to receive payment of their account balances in a single cash payment or in annual installments for a period of up to ten years. The first payroll subject to the Deferred Compensation Plan was in July 2018. The deferred compensation liability as of September 30, 2019 and December 31, 2018 amounted to \$530,744 and \$298,638, respectively, and is recorded in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets. The Company did not make any voluntary contributions for the nine months ended September 30, 2019.

#### **Note 13 – Subsequent Events**

The Company has evaluated events that occurred subsequent to September 30, 2019 through the date these condensed consolidated financial statements were issued for matters that required disclosure or adjustment in these condensed consolidated financial statements.

#### Employment Agreements

See Note 11 - Commitments and Contingencies.

#### Dividends Declared

On November 11, 2019, the Company's Board of Directors approved a quarterly dividend of \$0.0625 per share payable in cash on December 13, 2019 to stockholders of record as of the close of business on November 29, 2019 (see Note 8).

#### Capital Contribution to KICO

On November 11, 2019, the Company's Board of Directors approved a \$3,000,000 capital contribution to KICO, which is subject to approval from the New York State Department of Financial Services.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

### **Overview**

We offer property and casualty insurance products to individuals and small businesses through our wholly owned subsidiary, Kingstone Insurance Company ("KICO"). KICO's insureds are located primarily in downstate New York, consisting of New York City and Long Island, although we are actively writing business in New Jersey, Rhode Island, Massachusetts, and Connecticut. We are licensed in the States of New York, New Jersey, Rhode Island, Massachusetts, Pennsylvania, Connecticut, Maine, and New Hampshire. For the three months and nine months ended September 30, 2019, respectively, 84.0% and 86.8% of KICO's direct written premiums came from the New York policies.

In addition, through our subsidiary, Cosi Agency, Inc. ("Cosi"), a multi-state licensed general agency, we access alternative distribution channels. Through Cosi, we have the opportunity to partner with name-brand carriers and access nationwide insurance agencies. See "Distribution Channels" below for a discussion of our distribution channels. Cosi receives commission revenue from KICO for the policies it places with others and pays commissions to these agencies. Cosi retains the profit between the commission revenue received and the commission expense paid. Cosi revenue is included in other income and Cosi related expenses are included in other operating expenses. Cosi operations are not included in our stand-alone insurance underwriting business and, accordingly, its revenue and expenses are not included in the calculation of our combined ratio as described below.

We derive substantially all of our revenue from KICO, which includes revenues from earned premiums, ceding commissions from quota share reinsurance, net investment income generated from its portfolio, and net realized gains and losses on investment securities. All of KICO's insurance policies are written for a one-year term. Earned premiums represent premiums received from insureds, which are recognized as revenue over the period of time that insurance coverage is provided (i.e., ratably over the one-year life of the policy). A significant period of time can elapse from the receipt of insurance premiums to the payment of insurance claims. During this time, KICO invests the premiums, earns investment income and generates net realized and unrealized investment gains and losses on investments. Our holding company earns investment income from its cash holdings and may also generate net realized and unrealized investment gains and losses on future investments.

Our expenses include the insurance underwriting expenses of KICO and other operating expenses. Insurance companies incur a significant amount of their total expenses from losses incurred by policyholders, which are referred to as claims. In settling these claims, various loss adjustment expenses ("LAE") are incurred such as insurance adjusters' fees and legal expenses. In addition, insurance companies incur policy acquisition costs. Policy acquisition costs include commissions paid to producers, premium taxes, and other expenses related to the underwriting process, including employees' compensation and benefits.

Other operating expenses include our corporate expenses as a holding company and operating expenses of Cosi. These corporate expenses include legal and auditing fees, executive employment costs, and other costs directly associated with being a public company. Cosi operating expenses primarily include commissions paid to brokers, employment costs, and consulting costs.

### **Product Lines**

Our product lines include the following:

**Personal lines:** Our largest line of business is personal lines, consisting of homeowners, dwelling fire, cooperative/condominium, renters, and personal umbrella policies.

**Commercial lines:** Through July 2019, we offered businessowners policies, which consist primarily of small business retail, service, and office risks, with limited property exposures. We also wrote artisan's liability policies for small independent contractors with smaller sized workforces. In addition, we wrote special multi-peril policies for larger and more specialized businessowners risks, including those with limited residential exposures. Further, we offered commercial umbrella policies written above our supporting commercial lines policies.

In May 2019, due to the poor performance of this line we placed a moratorium on new commercial lines and new commercial umbrella submissions while we further reviewed this business. In July 2019, due to the continuing poor performance of these lines, we made the decision to no longer underwrite commercial lines or commercial umbrella risks. In force policies for these lines will be non-renewed at the end of their current annual terms. For the nine months ended September 30, 2019, these policies represent approximately 12% of net premiums earned and 47% of loss and LAE reserves net of reinsurance recoverables. See discussion below under "Additional Financial Information".

**Livery physical damage:** We write for-hire vehicle physical damage only policies for livery and car service vehicles and taxicabs. These policies insure only the physical damage portion of insurance for such vehicles, with no liability coverage included.

**Other:** We write canine legal liability policies and have a small participation in mandatory state joint underwriting associations.

## Key Measures

We utilize the following key measures in analyzing the results of our insurance underwriting business:

**Net loss ratio:** The net loss ratio is a measure of the underwriting profitability of an insurance company's business. Expressed as a percentage, this is the ratio of net losses LAE incurred to net premiums earned.

**Net underwriting expense ratio:** The net underwriting expense ratio is a measure of an insurance company's operational efficiency in administering its business. Expressed as a percentage, this is the ratio of the sum of acquisition costs (the most significant being commissions paid to our producers) and other underwriting expenses less ceding commission revenue less other income to net premiums earned.

**Net combined ratio:** The net combined ratio is a measure of an insurance company's overall underwriting profit. This is the sum of the net loss and net underwriting expense ratios. If the net combined ratio is at or above 100 percent, an insurance company cannot be profitable without investment income, and may not be profitable if investment income is insufficient.

**Underwriting income:** Underwriting income is net pre-tax income attributable to our insurance underwriting business before investment activity. It excludes net investment income, net realized gains from investments, and depreciation and amortization (net premiums earned less expenses included in combined ratio). Underwriting income is a measure of an insurance company's overall operating profitability before items such as investment income, depreciation and amortization, interest expense and income taxes.

## Distribution Channels

During 2019, we initiated an alternative distribution program through Cosi ("Alternative Distribution"). The goal of this program is to enhance our personal lines distribution channel to include nationally recognized name-brand carriers along with nationwide call center and digital insurance agencies. While still in early stages of development, the impact of this initiative can be measured by the amount of new premiums written compared to total premiums written, which includes renewals from our independent agency network. The table below shows premiums written by distribution channel for our homeowners and dwelling fire components of personal lines.

| (\$ in thousands)                     | Three months ended |               | Nine months ended  |               |
|---------------------------------------|--------------------|---------------|--------------------|---------------|
|                                       | September 30, 2019 |               | September 30, 2019 |               |
| Direct Written Premiums               | Amount             | Percent       | Amount             | Percent       |
| Core Independent                      | \$ 32,430          | 79.2%         | \$ 89,712          | 82.3%         |
| Expansion Independent (1)             | 7,188              | 17.6%         | 16,681             | 15.3%         |
| Alternative Distribution through Cosi | 1,317              | 3.2%          | 2,560              | 2.3%          |
| Total                                 | <u>\$ 40,935</u>   | <u>100.0%</u> | <u>\$ 108,953</u>  | <u>100.0%</u> |

(1) Outside of New York

*(Percent components may not sum to totals due to rounding)*

For the three months and nine months ended September 30, 2019, Alternative Distribution made up 3.2% and 2.3%, respectively, of direct written premiums for our homeowners and dwelling fire components of personal lines.

## Critical Accounting Policies and Estimates

Our condensed consolidated financial statements include the accounts of Kingstone Companies, Inc. and all majority-owned and controlled subsidiaries. The preparation of financial statements in conformity with GAAP requires our management to make estimates and assumptions in certain circumstances that affect amounts reported in our condensed consolidated financial statements and related notes. In preparing these condensed consolidated financial statements, our management has utilized information, including our past history, industry standards, the current economic environment, and other factors, in forming its estimates and judgments for certain amounts included in the condensed consolidated financial statements, giving due consideration to materiality. It is possible that the ultimate outcome as anticipated by our management in formulating its estimates in these financial statements may not materialize. Application of the critical accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. In addition, other companies may utilize different estimates, which may impact the comparability of our results of operations to those of similar companies.

We believe that the most critical accounting policies relate to the reporting of reserves for loss and LAE, including losses that have occurred but have not yet been reported prior to the reporting date, amounts recoverable from reinsurers, deferred ceding commission revenue, deferred policy acquisition costs, deferred income taxes, the impairment of investment securities, intangible assets and the valuation of stock-based compensation. See Note 2 to the condensed consolidated financial statements - "Accounting Policies" for information related to updated accounting policies.

## Consolidated Results of Operations

### Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

The following table summarizes the changes in the results of our operations (in thousands) for the periods indicated:

| (\$ in thousands)  | Nine months ended September 30, |                 |                    |                 |
|--|---------------------------------|-----------------|--------------------|-----------------|
|  | 2019                            | 2018            | Change             | Percent         |
| <b>Revenues</b>  |                                 |                 |                    |                 |
| Direct written premiums  | \$ 128,333                      | \$ 107,175      | \$ 21,158          | 19.7%           |
| Assumed written premiums   | 1                               | 1               | -                  | na%             |
|  | <u>128,334</u>                  | <u>107,176</u>  | <u>21,158</u>      | <u>19.7%</u>    |
| Ceded written premiums   |                                 |                 |                    |                 |
| Ceded to quota share treaties (1)                                      | 6,110                           | 8,137           | \$ (2,027)         | (24.9)%         |
| Ceded to excess of loss treaties                                       | 1,219                           | 988             | 231                | 23.4%           |
| Ceded to catastrophe treaties  | 13,585                          | 10,284          | 3,301              | 32.1%           |
| Total ceded written premiums   | <u>20,914</u>                   | <u>19,409</u>   | <u>1,505</u>       | <u>7.8%</u>     |
| Net written premiums   | <u>107,420</u>                  | <u>87,767</u>   | <u>19,653</u>      | <u>22.4%</u>    |
| Change in unearned premiums  |                                 |                 |                    |                 |
| Direct and assumed   | (11,037)                        | (9,927)         | (1,110)            | 11.2%           |
| Ceded to quota share treaties  | (1,366)                         | (3,364)         | 1,998              | (59.4)%         |
| Change in net unearned premiums  | <u>(12,403)</u>                 | <u>(13,291)</u> | <u>888</u>         | <u>(6.7)%</u>   |
| Premiums earned  |                                 |                 |                    |                 |
| Direct and assumed   | 117,297                         | 97,249          | 20,048             | 20.6%           |
| Ceded to reinsurance treaties  | (22,280)                        | (22,773)        | 493                | (2.2)%          |
| Net premiums earned  | <u>95,017</u>                   | <u>74,476</u>   | <u>20,541</u>      | <u>27.6%</u>    |
| Ceding commission revenue  |                                 |                 |                    |                 |
| Excluding the effect of catastrophes                                   | 2,983                           | 4,890           | (1,907)            | (39.0)%         |
| Effect of catastrophes   | -                               | (459)           | 459                | n/a%            |
| Total ceding commission revenue  | <u>2,983</u>                    | <u>4,431</u>    | <u>(1,448)</u>     | <u>(32.7)%</u>  |
| Net investment income  | 5,200                           | 4,543           | 657                | 14.5%           |
| Net gains (losses) on investments                                      | 3,712                           | (278)           | 3,990              | (1,435.3)%      |
| Other income   | 1,192                           | 962             | 230                | 23.9%           |
| Total revenues   | <u>108,104</u>                  | <u>84,134</u>   | <u>23,970</u>      | <u>28.5%</u>    |
| <b>Expenses</b>  |                                 |                 |                    |                 |
| Loss and loss adjustment expenses                                      |                                 |                 |                    |                 |
| Direct and assumed:  |                                 |                 |                    |                 |
| Loss and loss adjustment expenses excluding the effect of catastrophes | 72,682                          | 42,603          | 30,079             | 70.6%           |
| Losses from catastrophes (2)   | 7,755                           | 10,805          | (3,050)            | (28.2)%         |
| Total direct and assumed loss and loss adjustment expenses             | <u>80,437</u>                   | <u>53,408</u>   | <u>27,029</u>      | <u>50.6%</u>    |
| Ceded loss and loss adjustment expenses:                               |                                 |                 |                    |                 |
| Loss and loss adjustment expenses excluding the effect of catastrophes | 8,041                           | 6,984           | 1,057              | 15.1%           |
| Losses from catastrophes (2)   | 808                             | 4,685           | (3,877)            | (82.8)%         |
| Total ceded loss and loss adjustment expenses                          | <u>8,849</u>                    | <u>11,669</u>   | <u>(2,820)</u>     | <u>(24.2)%</u>  |
| Net loss and loss adjustment expenses:                                 |                                 |                 |                    |                 |
| Loss and loss adjustment expenses excluding the effect of catastrophes | 64,641                          | 35,619          | 29,022             | 81.5%           |
| Losses from catastrophes (2)   | 6,947                           | 6,120           | 827                | 13.5%           |
| Net loss and loss adjustment expenses                                  | <u>71,588</u>                   | <u>41,739</u>   | <u>29,849</u>      | <u>71.5%</u>    |
| Commission expense   | 21,932                          | 18,411          | 3,521              | 19.1%           |
| Other underwriting expenses  | 17,983                          | 15,301          | 2,682              | 17.5%           |
| Other operating expenses   | 2,774                           | 1,774           | 1,000              | 56.4%           |
| Depreciation and amortization  | 1,876                           | 1,274           | 602                | 47.3%           |
| Interest expense   | 1,370                           | 1,365           | 5                  | 0.4%            |
| Total expenses   | <u>117,523</u>                  | <u>79,864</u>   | <u>37,659</u>      | <u>47.2%</u>    |
| (Loss) income before taxes   | (9,419)                         | 4,269           | (13,688)           | (320.6)%        |
| Income tax (benefit) expense   | (1,998)                         | 296             | (2,294)            | (775.0)%        |
| <b>Net (loss) income</b>   | <u>\$ (7,421)</u>               | <u>\$ 3,973</u> | <u>\$ (11,394)</u> | <u>(286.8)%</u> |

(1) Effective July 1, 2018, we decreased the quota share ceding rate in our personal lines quota share treaty from 20% to 10%. Effective July 1, 2019, our personal lines 10% quota share treaty expired on a run-off basis.

(2) The nine months ended September 30, 2019 and 2018 includes catastrophe losses, which are defined as losses from an event for which a catastrophe bulletin and related serial number has been issued by the Property Claims Services (PCS) unit of the Insurance Services Office (ISO). PCS catastrophe bulletins are issued for events that cause more than \$25 million in total insured losses and affect a significant number of policyholders and insurers.

|                                | Nine months ended September 30, |       |                         |                |
|--------------------------------|---------------------------------|-------|-------------------------|----------------|
|                                | 2019                            | 2018  | Percentage Point Change | Percent Change |
| <b>Key ratios:</b>             |                                 |       |                         |                |
| Net loss ratio                 | 75.3%                           | 56.0% | 19.3                    | 34.5%          |
| Net underwriting expense ratio | 37.8%                           | 38.1% | (0.3)                   | (0.8)%         |
| Net combined ratio             | 113.1%                          | 94.1% | 19.0                    | 20.2%          |

#### Direct Written Premiums

Direct written premiums during the nine months ended September 30, 2019 (“Nine Months 2019”) were \$128,333,000 compared to \$107,175,000 during the nine months ended September 30, 2018 (“Nine Months 2018”). The increase of \$21,158,000, or 19.7%, was primarily due to an increase in policies in-force during Nine Months 2019 as compared to Nine Months 2018. We wrote more new policies as a result of continued demand for our products in the markets that we serve. Policies in-force increased by 17.7% as of September 30, 2019 compared to September 30, 2018.

In 2017, we started writing homeowners’ policies in New Jersey and Rhode Island. We began writing homeowners policies in Massachusetts in 2018 and Connecticut in March of 2019. We refer to our New York business as our “Core” business and the business outside of New York as our “Expansion” business. Direct written premiums from our Expansion business were \$16,900,000 in Nine Months 2019 compared to \$5,919,000 in Nine Months 2018.

#### Net Written Premiums and Net Premiums Earned

Our personal lines quota share reinsurance treaties in effect for Nine Months 2019 and Nine Months 2018 were covered under a treaty covering a two-year period from July 1, 2017 through June 30, 2019 (“2017/2019 Treaty”). The following table describes the quota share reinsurance ceding rates in effect for each treaty year during Nine Months 2019 and Nine Months 2018 under the 2017/2019 Treaty, respectively. This table should be referred to in conjunction with the discussions for net written premiums, net premiums earned, ceding commission revenue and net loss and loss adjustment expenses that follow.

| Nine months ended September 30, 2019                      |  | Nine months ended September 30, 2018                      |   |
|---|--|---|---|
| January 1,<br>to<br>June 30,<br>("2018/2019 Treaty Year") | July 1,<br>to<br>September 30,<br>("2019/2020 Run-off Year") | January 1,<br>to<br>June 30,<br>("2017/2018 Treaty Year") | July 1,<br>to<br>September 30,<br>("2018/2019 Treaty Year") |
| 10% (1)   | 0% (2)   | 20% (1)   | 10% (1)   |

#### Quota share reinsurance rates

|                |         |        |         |         |
|----------------|---------|--------|---------|---------|
| Personal lines | 10% (1) | 0% (2) | 20% (1) | 10% (1) |
|----------------|---------|--------|---------|---------|

(1) The 2017/2019 Treaty was a two-year treaty; quota share reinsurance rate was reduced to 10% effective July 1, 2018 (the “2018 Cut-off”).

(2) The 2017/2019 Treaty expired on a run-off basis effective July 1, 2019 (the “2019 Run-off”).

See “Reinsurance” below for changes to our personal lines quota share treaties effective July 1, 2019, 2018 and 2017.

Net written premiums increased \$19,653,000, or 22.4%, to \$107,420,000 in Nine Months 2019 from \$87,767,000 in Nine Months 2018. Net written premiums include direct and assumed premiums, less the amount of written premiums ceded under our reinsurance treaties (quota share, excess of loss, and catastrophe). Our personal lines business was subject to the 2017/2019 Treaty under the 2018/2019 Treaty Year through June 30, 2019. Following June 30, 2019, any earned premium and associated claims for policies still inforce will continue to be ceded under the 10% quota share rate until such policies expire (run-off) over the next year. The 2019 Run-off period is from July 1, 2019 through June 30, 2020 and there is no return of unearned premiums under this arrangement. The 2018 Cut-off on July 1, 2018 resulted in a \$4,553,000 return of unearned premiums from our reinsurers that were previously ceded under the expiring personal lines quota share treaty.

#### *Excess of loss reinsurance treaties*

An increase in written premiums will increase the premiums ceded under our excess of loss treaties. In Nine Months 2019, our ceded excess of loss reinsurance premiums increased by \$231,000 over the comparable ceded premiums for Nine Months 2018. The increase was due to an increase in premiums subject to excess of loss reinsurance.

### Catastrophe reinsurance treaties

Most of the premiums written under our personal lines policies are also subject to our catastrophe treaties. An increase in our personal lines business gives rise to more property exposure, which increases our exposure to catastrophe risk; therefore, our premiums ceded under catastrophe treaties will increase. This results in an increase in premiums ceded under our catastrophe treaties provided that reinsurance rates are stable or are increasing. In Nine Months 2019, our premiums ceded under catastrophe treaties increased by \$3,301,000 over the comparable ceded premiums in Nine Months 2018. The change was due to an increase in our catastrophe limit purchased, an increase in premiums subject to catastrophe reinsurance due to continued growth, and an increase in reinsurance rates effective July 1, 2019. Our ceded catastrophe premiums are paid based on the total direct written premiums subject to the catastrophe reinsurance treaty.

### Net premiums earned

Net premiums earned increased \$20,541,000, or 27.6%, to \$95,017,000 in Nine Months 2019 from \$74,476,000 in Nine Months 2018. The increase was due to the increase in written premiums discussed above and our retaining more earned premiums effective: (1) July 1, 2019 as a result of the expiration and non-renewal of the 2017/2019 Treaty, and (2) July 1, 2018, as a result of the reduction in the quota share reinsurance rates.

### Ceding Commission Revenue

The following table details the quota share provisional ceding commission rates in effect during Nine Months 2019 and Nine Months 2018. This table should be referred to in conjunction with the discussion for ceding commission revenue that follows.

| Nine months ended September 30, 2019 |                                | Nine months ended September 30, 2018 |                                |
|--------------------------------------|--------------------------------|--------------------------------------|--------------------------------|
| January 1,<br>to<br>June 30,         | July 1,<br>to<br>September 30, | January 1,<br>to<br>June 30,         | July 1,<br>to<br>September 30, |
| ("2018/2019 Treaty Year")            | ("2019/2020 Run-off Year")     | ("2017/2018 Treaty Year")            | ("2018/2019 Treaty Year")      |

### Provisional ceding commission rate on quota share treaty

|                |     |        |     |     |
|----------------|-----|--------|-----|-----|
| Personal lines | 53% | 0% (1) | 53% | 53% |
|----------------|-----|--------|-----|-----|

(1) The 2017/2019 Treaty expired on a run-off basis effective July 1, 2019, allowing for provisional ceding commissions to be earned during the 2019/2020 Run-off Year.

The following table summarizes the changes in the components of ceding commission revenue (in thousands) for the periods indicated:

| (\$ in thousands)   | Nine months ended September 30, |          |            |         |
|---|---------------------------------|----------|------------|---------|
|   | 2019                            | 2018     | Change     | Percent |
| Provisional ceding commissions earned                                     | \$ 4,001                        | \$ 5,468 | \$ (1,467) | (26.8)% |
| Contingent ceding commissions earned                                      |                                 |          |            |         |
| Contingent ceding commissions earned excluding the effect of catastrophes | (1,018)                         | (578)    | (440)      | 76.1%   |
| Effect of catastrophes on ceding commissions earned                       | -                               | (459)    | 459        | n/a     |
| Contingent ceding commissions earned                                      | (1,018)                         | (1,037)  | 19         | (1.8)%  |
| Total ceding commission revenue   | \$ 2,983                        | \$ 4,431 | \$ (1,448) | (32.7)% |

Ceding commission revenue was \$2,983,000 in Nine Months 2019 compared to \$4,431,000 in Nine Months 2018. The decrease of \$1,448,000, or 32.7%, was due to a decrease in provisional ceding commissions earned, partially offset by an increase in contingent ceding commissions earned. The reduction in provisional ceding commissions occurred due to the reduction in quota share reinsurance rates (see below for discussion of provisional ceding commissions earned and contingent ceding commissions earned).

#### *Provisional Ceding Commissions Earned*

We receive a provisional ceding commission based on ceded written premiums. The \$1,467,000 decrease in provisional ceding commissions earned is primarily due to: (1) the decrease in the quota share ceding rate effective July 1, 2018 to 10%, from the 20% rate in effect from July 1, 2017 through June 30, 2018, and (2) the elimination of the 10% quota share effective July 1, 2019. There was a reduction in ceded premiums in Nine Months 2019 available from which to earn ceding commissions compared to Nine Months 2018. The decrease was partially offset by an increase in personal lines direct written premiums subject to the quota share.

#### *Contingent Ceding Commissions Earned*

We receive a contingent ceding commission based on a sliding scale in relation to the losses incurred under our quota share treaties. The lower the ceded loss ratio, the more contingent commission we receive. The amount of contingent ceding commissions we are eligible to receive under the 2017/2019 Treaty is subject to change based on losses incurred from claims with accident dates beginning July 1, 2017. The amount of contingent ceding commissions we are eligible to receive under our prior years' quota share treaties is subject to change based on losses incurred related to claims with accident dates before July 1, 2017.

The 2017/2019 Treaty structure limits the amount of contingent ceding commissions that we can receive by setting a higher provisional commission rate than the rates received in prior years. As a result of the higher upfront provisional ceding commissions that we received under the 2017/2019 Treaty, there is not an opportunity to earn additional contingent ceding commissions under this treaty. Under the 2017/2019 Treaty "net" treaty structure, catastrophe losses in excess of the \$5,000,000 retention will fall outside of the quota share treaty and such losses will not have an impact on contingent ceding commissions. In Nine Months 2018, catastrophe losses of \$1,497,000 were ceded under our personal lines quota share treaty. These catastrophe losses resulted in the Loss Ratios for the period July 1, 2017 through June 30, 2018 (attributable to the 2017/2019 Treaty) being higher than the contractual Loss Ratio at which provisional ceding commissions were being earned. As a result, we incurred a reduction to the contingent ceding commissions of \$459,000 relative to what would have been earned had the catastrophe losses not occurred. Effective July 1, 2018, the provisional ceding commission rate was a fixed rate with no downward adjustment required related to Loss Ratio; accordingly, in Nine Months 2019, catastrophe losses of \$808,000 that were ceded under our personal lines quota share treaty did not have an effect on contingent ceding commissions. See "Reinsurance" below for information as to our personal lines quota share treaty effective July 1, 2019, 2018 and 2017.

#### Net Investment Income

Net investment income was \$5,200,000 in Nine Months 2019 compared to \$4,543,000 in Nine Months 2018. The increase of \$657,000, or 14.5%, was due to an increase in average invested assets in Nine Months 2019. The average yield on invested assets was 3.62% as of September 30, 2019 compared to 3.37% as of September 30, 2018. The pre-tax equivalent yield on invested assets was 3.45% and 3.44% as of September 30, 2019 and 2018, respectively.

Cash and invested assets were \$221,610,000 as of September 30, 2019 compared to \$196,595,000 as of September 30, 2018. The \$25,015,000 increase in cash and invested assets resulted primarily from increased operating cash flows for the period after September 30, 2018.

#### Net Gains and Losses on Investments

Net gains on investments were \$3,712,000 in Nine Months 2019 compared to a net loss of \$278,000 in Nine Months 2018. Unrealized gains on our equity securities and other investments in Nine Months 2019 were \$3,767,000, compared to an unrealized gain of \$99,000 in Nine Months 2018. Realized losses on sales of investments were \$55,000 and \$377,000 in Nine Months 2019 and Nine Months 2018, respectively.

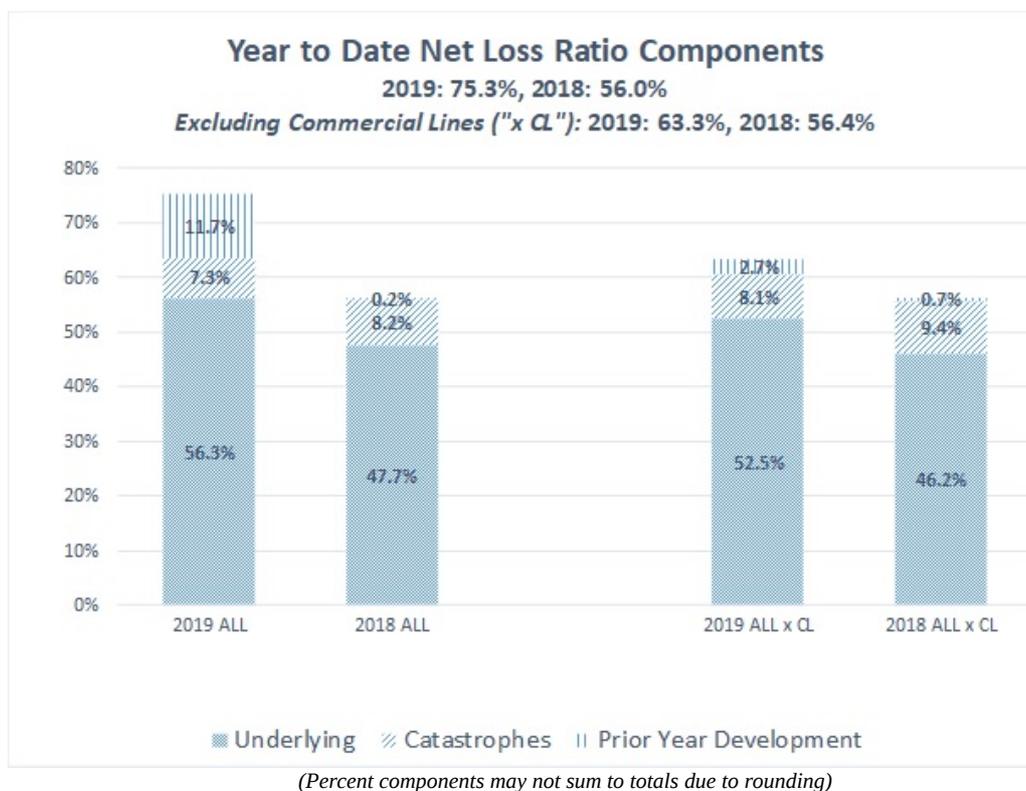
## Other Income

Other income was \$1,192,000 in Nine Months 2019 compared to \$962,000 in Nine Months 2018. The increase of \$230,000, or 23.9%, was primarily due to commission revenue from Cosi and an increase in installment and other fees earned in our insurance underwriting business in Nine Months 2019.

## Net Loss and LAE

Net loss and LAE was \$71,588,000 in Nine Months 2019 compared to \$41,739,000 in Nine Months 2018. The net loss ratio was 75.3% in Nine Months 2019 compared to 56.0% in Nine Months 2018, an increase of 19.3 percentage points.

The following graph summarizes the changes in the components of net loss ratio for the periods indicated, along with the comparable components excluding commercial lines business:



During Nine Months 2019, the loss ratio was 75.3%, a 19.3 point increase compared to Nine Months 2018. The loss ratio for Nine Months 2019 is elevated primarily due to prior year loss development of \$11.1 million, which has an 11.7 point effect on the loss ratio. This compares to 0.2 points of prior year loss development in Nine Months 2018, or an increase of 11.5 points from the impact of prior year loss development. Unfavorable claim resolution trends led to a complete review of open liability case reserves. The review determined that case reserve strengthening was required, of which, \$8.8 million of these case reserve adjustments were from commercial lines liability claims. These case reserve adjustments demonstrated the high volatility of our commercial lines business and contributed to our decision to no longer underwrite these risks. This prior year loss development significantly increased the ultimate loss ratio projections for the commercial lines business in accident years 2014 and forward. Excluding commercial lines, prior year development for Nine Months 2019 had a 2.7 point impact on our loss ratio, compared to a 0.7 point impact of prior year loss development for Nine Months 2018.

The impact of catastrophes, although lower than through Nine Months 2018, is significant and above average in both nine month periods. Through Nine Months 2019, catastrophe losses have a 7.3 point impact on the loss ratio, compared to an 8.2 point impact for Nine Months 2018, or a reduction in the impact of catastrophes of 0.9 points. The average catastrophe impact for the five years ending 2018 has been 3.8 points, so both Nine Months 2018 and Nine Months 2019 have a significantly higher catastrophe impact than normal. Although there have been seven PCS catastrophe events affecting Kingstone in Nine Months 2019, 64% of net losses or 4.6 points of the impact relates to the first winter freeze event in Mid-January.

The underlying loss ratio excluding the impact of catastrophes and prior year loss development was 56.3% for Nine Months 2019, an increase of 8.6 points from the 47.7% underlying loss ratio recorded for Nine Months 2018. The underlying loss ratio increased compared to Nine Months 2018 due to continued increases in average claim severity for non-weather water damage property claims as well as increased large fire claim activity. In addition, the underlying loss ratio for Nine Months 2019 is affected by increased loss ratio expectations for commercial lines as a result of increases in prior year loss ratio estimates for that business as noted above. Excluding commercial lines, the underlying loss ratio excluding the impact of catastrophes and prior year development for Nine Months 2019 was 52.5%, an increase of 6.34 points from the 46.1% underlying loss ratio recorded for Nine Months 2018. See table below under "Additional Financial Information" summarizing net loss ratios by line of business.

#### Commission Expense

Commission expense was \$21,932,000 in Nine Months 2019 or 18.7% of direct earned premiums. Commission expense was \$18,411,000 in Nine Months 2018 or 18.9% of direct earned premiums. The increase of \$3,521,000 is primarily due to the increase in direct earned premiums for Nine Months 2019 as compared to Nine Months 2018.

#### Other Underwriting Expenses

Other underwriting expenses were \$17,983,000 in Nine Months 2019 compared to \$15,301,000 in Nine Months 2018. The increase of \$2,682,000, or 17.5%, was primarily due to expenses related to growth in direct written premiums. Expenses directly related to the increase in direct written premiums primarily consist of underwriting expenses, software usage fees, and state premium taxes. Expenses indirectly related to the increase in direct written premiums primarily consist of salaries along with related other employment costs. The other underwriting expense increase of 17.5 points was less than the 19.7 point increase in total direct written premiums.

Our largest single component of other underwriting expenses is salaries and employment costs, with costs of \$7,637,000 in Nine Months 2019 compared to \$6,862,000 in Nine Months 2018. The increase of \$775,000, or 11.3%, was less than the 19.7% increase in total direct written premiums. The increase in employment costs was due to hiring of additional staff to service our current level of business and anticipated growth in volume, as well as annual increases in salaries.

Our net underwriting expense ratio in Nine Months 2019 was 37.8% compared to 38.1% in Nine Months 2018. The following table shows the individual components of our net underwriting expense ratio for the periods indicated:

|   | Nine months ended     |                       | Percentage<br>Point Change |
|---|-----------------------|-----------------------|----------------------------|
|   | September 30,<br>2019 | September 30,<br>2018 |                            |
| Other underwriting expenses                   |                       |                       |                            |
| Employment costs                              | 8.0%                  | 9.2%                  | (1.2)                      |
| Underwriting fees (inspections/data services) | 2.4                   | 2.4                   | -                          |
| Other expenses                                | 8.4                   | 9.0                   | (0.6)                      |
| Total other underwriting expenses             | <u>18.8</u>           | <u>20.6</u>           | <u>(1.8)</u>               |
| Ceding commission revenue                     |                       |                       |                            |
| Provisional                                   | (4.2)                 | (7.3)                 | 3.1                        |
| Contingent                                    | 1.1                   | 1.4                   | (0.3)                      |
| Total ceding commission revenue               | <u>(3.1)</u>          | <u>(5.9)</u>          | <u>2.8</u>                 |
| Other income                                  | (1.0)                 | (1.3)                 | 0.3                        |
| Commission expense                            | <u>23.1</u>           | <u>24.7</u>           | <u>(1.6)</u>               |
| Net underwriting expense ratio                | <u><u>37.8%</u></u>   | <u><u>38.1%</u></u>   | <u><u>(0.3)</u></u>        |

The 1.8 percentage point decrease in our other underwriting expense ratio was driven by a decline of 1.2 percentage points from the impact of employment costs.

The overall 3.1 percentage point increase in provisional ceding commissions was driven entirely by the change in our quota share ceding rates and its impact on provisional ceding commission revenue due to the additional retention resulting from the cut-off to our quota share treaty on July 1, 2018 and run-off to our expired quota share treaty on July 1, 2019. The components of our net underwriting expense ratio related to other underwriting expenses, other income and commissions improved in nearly all categories, resulting in an overall 0.3 percentage point decrease in the net underwriting expense ratio.

#### Other Operating Expenses

Other operating expenses, related to the expenses of our holding company and Cosi, were \$2,774,000 for Nine Months 2019 compared to \$1,774,000 for Nine Months 2018. The increase in Nine Months 2019 of \$1,000,000, or 56.4%, as compared to Nine Months 2018 was primarily due to increases in equity compensation and salaries, partially offset by a decrease in executive bonuses. The increase in salary was due to the initial hiring of staff for Cosi and the increase in equity compensation was due to 2019 annual restricted stock awards to directors and executives. Executive bonus compensation is accrued pursuant to the employment agreement effective January 1, 2017 with Barry B. Goldstein, our Executive Chairman and current Chief Executive Officer. The bonus is a one-time payment computed at the end of the three-year period ended December 31, 2019, and as of September 30, 2019 the three-year computation did not meet the required terms of profitability, resulting in the reversal of \$698,000 previously accrued.

#### Depreciation and Amortization

Depreciation and amortization was \$1,876,000 in Nine Months 2019 compared to \$1,274,000 in Nine Months 2018. The increase of \$602,000, or 47.3%, in depreciation and amortization was primarily due to depreciation of our new system platform for processing business being written in Expansion states and newly purchased assets used to upgrade our systems infrastructure and improvements to the Kingston, New York home office building from which we operate.

#### Interest Expense

Interest expense for Nine Months 2019 was \$1,370,000 compared to \$1,365,000 in Nine Months 2018. We incurred interest expense in connection with our \$30.0 million issuance of long-term debt in December 2017.

#### Income Tax Benefit/Expense

Income tax benefit in Nine Months 2019 was \$1,998,000, which resulted in an effective tax rate of 21.2%. Income tax expense in Nine Months 2018 was \$296,000, which resulted in an effective tax rate of 6.9%. Loss before taxes was \$9,419,000 in Nine Months 2019 compared to income before taxes of \$4,269,000 in Nine Months 2018.

## Net Loss/Income

Net loss was \$7,421,000 in Nine Months 2019 compared to net income of \$3,973,000 in Nine Months 2018. The decrease in net income of \$11,394,000 was due to the circumstances described above, which caused the increase in our net loss ratio, decrease in ceding commission revenue, increases in other underwriting and operating expenses, and depreciation and amortization, partially offset by the increase in our net premiums earned, net investment income, and net gains on investments.

### Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

The following table summarizes the changes in the results of our operations (in thousands) for the periods indicated:

| (\$ in thousands)  | Three months ended September 30, |                 |                   |                 |
|--|----------------------------------|-----------------|-------------------|-----------------|
|  | 2019                             | 2018            | Change            | Percent         |
| <b>Revenues</b>  |                                  |                 |                   |                 |
| Direct written premiums  | \$ 46,023                        | \$ 38,785       | \$ 7,238          | 18.7%           |
| Assumed written premiums   | 1                                | -               | 1                 | na%             |
|  | <u>46,024</u>                    | <u>38,785</u>   | <u>7,239</u>      | <u>18.7%</u>    |
| Ceded written premiums   |                                  |                 |                   |                 |
| Ceded to quota share treaties (1)                                      | 147                              | (1,473)         | 1,620             | (110.0)%        |
| Ceded to excess of loss treaties                                       | 386                              | 392             | (6)               | (1.5)%          |
| Ceded to catastrophe treaties  | 5,053                            | 3,764           | 1,289             | 34.2%           |
| Total ceded written premiums   | <u>5,586</u>                     | <u>2,683</u>    | <u>2,903</u>      | <u>108.2%</u>   |
| Net written premiums   | <u>40,438</u>                    | <u>36,102</u>   | <u>4,336</u>      | <u>12.0%</u>    |
| Change in unearned premiums  |                                  |                 |                   |                 |
| Direct and assumed   | (4,581)                          | (4,435)         | (146)             | 3.3%            |
| Ceded to quota share treaties  | (1,637)                          | (4,133)         | 2,496             | (60.4)%         |
| Change in net unearned premiums  | <u>(6,218)</u>                   | <u>(8,568)</u>  | <u>2,350</u>      | <u>(27.4)%</u>  |
| Premiums earned  |                                  |                 |                   |                 |
| Direct and assumed   | 41,443                           | 34,351          | 7,092             | 20.6%           |
| Ceded to reinsurance treaties  | (7,223)                          | (6,817)         | (406)             | 6.0%            |
| Net premiums earned  | <u>34,220</u>                    | <u>27,534</u>   | <u>6,686</u>      | <u>24.3%</u>    |
| Ceding commission revenue  | 1,030                            | 1,045           | (15)              | (1.4)%          |
| Net investment income  | 1,856                            | 1,602           | 254               | 15.9%           |
| Net gains on investments   | 998                              | 352             | 646               | 183.5%          |
| Other income   | 496                              | 353             | 143               | 40.5%           |
| Total revenues   | <u>38,600</u>                    | <u>30,886</u>   | <u>7,714</u>      | <u>25.0%</u>    |
| <b>Expenses</b>  |                                  |                 |                   |                 |
| Loss and loss adjustment expenses                                      |                                  |                 |                   |                 |
| Direct and assumed:  |                                  |                 |                   |                 |
| Loss and loss adjustment expenses excluding the effect of catastrophes | 26,518                           | 16,705          | 9,813             | 58.7%           |
| Losses from catastrophes (2)   | 491                              | 244             | 247               | 101.2%          |
| Total direct and assumed loss and loss adjustment expenses             | <u>27,009</u>                    | <u>16,949</u>   | <u>10,060</u>     | <u>59.4%</u>    |
| Ceded loss and loss adjustment expenses:                               |                                  |                 |                   |                 |
| Loss and loss adjustment expenses excluding the effect of catastrophes | 2,182                            | 3,798           | (1,616)           | (42.5)%         |
| Losses from catastrophes (2)   | 45                               | (146)           | 191               | (130.8)%        |
| Total ceded loss and loss adjustment expenses                          | <u>2,227</u>                     | <u>3,652</u>    | <u>(1,425)</u>    | <u>(39.0)%</u>  |
| Net loss and loss adjustment expenses:                                 |                                  |                 |                   |                 |
| Loss and loss adjustment expenses excluding the effect of catastrophes | 24,335                           | 12,907          | 11,428            | 88.5%           |
| Losses from catastrophes (2)   | 446                              | 390             | 56                | 14.4%           |
| Net loss and loss adjustment expenses                                  | <u>24,781</u>                    | <u>13,297</u>   | <u>11,484</u>     | <u>86.4%</u>    |
| Commission expense   | 7,779                            | 6,594           | 1,185             | 18.0%           |
| Other underwriting expenses  | 6,431                            | 5,194           | 1,237             | 23.8%           |
| Other operating expenses   | 705                              | 683             | 22                | 3.2%            |
| Depreciation and amortization  | 646                              | 440             | 206               | 46.8%           |
| Interest expense   | 457                              | 457             | -                 | -%              |
| Total expenses   | <u>40,799</u>                    | <u>26,665</u>   | <u>14,135</u>     | <u>53.0%</u>    |
| (Loss) income before taxes   | (2,199)                          | 4,221           | (6,420)           | (152.1)%        |
| Income tax (benefit) expense   | (474)                            | 287             | (761)             | (265.2)%        |
| <b>Net (loss) income</b>   | <u>\$ (1,725)</u>                | <u>\$ 3,934</u> | <u>\$ (5,659)</u> | <u>(143.8)%</u> |

(1) Effective July 1, 2018, we decreased the quota share ceding rate in our personal lines quota share treaty from 20% to 10%. Effective July 1, 2019, our personal lines 10% quota share treaty expired on a run-off basis.

(2) The three months ended September 30, 2019 includes catastrophe losses, which are defined as losses from an event for which a catastrophe bulletin and related serial number has been issued by the Property Claims Services (PCS) unit of the Insurance Services Office (ISO). PCS catastrophe bulletins are issued for events that cause more than \$25 million in total insured losses and affect a significant number of policyholders and insurers.

|                                | Three months ended September 30, |       |                         |                |
|--------------------------------|----------------------------------|-------|-------------------------|----------------|
|                                | 2019                             | 2018  | Percentage Point Change | Percent Change |
| <b>Key ratios:</b>             |                                  |       |                         |                |
| Net loss ratio                 | 72.4%                            | 48.3% | 24.1                    | 49.9%          |
| Net underwriting expense ratio | 37.5%                            | 37.7% | (0.2)                   | (0.5)%         |
| Net combined ratio             | 109.9%                           | 86.0% | 23.9                    | 27.8%          |

#### Direct Written Premiums

Direct written premiums during the three months ended September 30, 2019 (“Three Months 2019”) were \$46,023,000 compared to \$38,785,000 during the three months ended September 30, 2018 (“Three Months 2018”). The increase of \$7,238,000, or 18.7%, was primarily due to an increase in policies in-force during Three Months 2019 as compared to Three Months 2018 driven by continued growth in new business. We wrote more new policies as a result of continued demand for our products in the markets that we serve. Policies in-force increased by 17.7% as of September 30, 2019 compared to September 30, 2018.

In 2017, we started writing homeowners’ policies in New Jersey and Rhode Island. We began writing homeowners policies in Massachusetts in 2018 and Connecticut in March of 2019. We refer to our New York business as our “Core” business and the business outside of New York as our “Expansion” business. Direct written premiums from our Expansion business were \$7,371,000 in Three Months 2019, compared to \$2,855,000 in Three Months 2018.

#### Net Written Premiums and Net Premiums Earned

Our personal lines quota share reinsurance treaties in effect for Three Months 2019 and Three Months 2018 were covered under a treaty covering a two-year period from July 1, 2017 through June 30, 2019 (“2017/2019 Treaty”). The following table describes the quota share reinsurance ceding rates in effect for each treaty year during Three Months 2019 and Three Months 2018 under the 2017/2019 Treaty, respectively. This table should be referred to in conjunction with the discussions for net written premiums, net premiums earned, ceding commission revenue and net loss and loss adjustment expenses that follow.

|  | Three months ended September 30, |                           |
|--|----------------------------------|---------------------------|
|  | 2019                             | 2018                      |
|  | (“2019/2020 Run-off Year”)       | (“2018/2019 Treaty Year”) |

#### Quota share reinsurance rates

|                |        |         |
|----------------|--------|---------|
| Personal lines | 0% (2) | 10% (1) |
|----------------|--------|---------|

(1) The 2017/2019 Treaty was a two-year treaty; quota share reinsurance rate was reduced to 10% effective July 1, 2018 (the “2018 Cut-off”).

(2) The 2017/2019 Treaty expired on a run-off basis effective July 1, 2019 (the “2019 Run-off”).

See “Reinsurance” below for changes to our personal lines quota share treaties effective July 1, 2019, 2018 and 2017.

Net written premiums increased \$4,336,000, or 12.0%, to \$40,438,000 in Three Months 2019 from \$36,102,000 in Three Months 2018. Net written premiums include direct and assumed premiums, less the amount of written premiums ceded under our reinsurance treaties (quota share, excess of loss, and catastrophe). Our personal lines business was subject to the 2017/2019 Treaty under the 2018/2019 Treaty Year through June 30, 2019. Following June 30, 2019, any earned premium and associated claims for policies still inforce will continue to be ceded under the 10% quota share rate until such policies expire (run-off) over the next year. The 2019 Run-off period is from July 1, 2019 through June 30, 2020 and there is no return of unearned premiums under this arrangement. The 2018 Cut-off on July 1, 2018 resulted in a \$4,553,000 return of unearned premiums from our reinsurers that were previously ceded under the expiring personal lines quota share treaty.

*Excess of loss reinsurance treaties*

An increase in written premiums will, to a lesser extent, increase the premiums ceded under our excess of loss treaties. In Three Months 2019, our ceded excess of loss reinsurance premiums increased by \$122,000 over the comparable ceded premiums for Three Months 2018. The increase is due to an increase in premiums subject to excess of loss reinsurance.

*Catastrophe reinsurance treaties*

Most of the premiums written under our personal lines policies are also subject to our catastrophe treaty. An increase in our personal lines business gives rise to more property exposure, which increases our exposure to catastrophe risk; therefore, our premiums ceded under catastrophe treaties will increase. This results in an increase in premiums ceded under our catastrophe treaty provided that reinsurance rates are stable or are increasing. In Three Months 2019, our premiums ceded under catastrophe treaties increased by \$1,289,000 over the comparable ceded premiums for Three Months 2018. The change was due to an increase in our catastrophe limit purchases, an increase in premiums subject to catastrophe reinsurance due to continued growth, and an increase in reinsurance rates. Our ceded catastrophe premiums are paid based on the total direct written premiums subject to the catastrophe reinsurance treaty.

*Net premiums earned*

Net premiums earned increased \$6,686,000, or 24.3 %, to \$34,220,000 in Three Months 2019 from \$27,534,000 in Three Months 2018. The increase was due to the increase in written premiums discussed above and our retaining more earned premiums effective: (1) July 1, 2019 as a result of the expiration and non-renewal of the 2017/2019 Treaty, and (2) July 1, 2018, as a result of the reduction in the quota share reinsurance rates.

Ceding Commission Revenue

The following table details the quota share provisional ceding commission rates in effect during Three Months 2019 and Three Months 2018. This table should be referred to in conjunction with the discussion for ceding commission revenue that follows.

| <b>Three months ended</b>  |                            |  |
|----------------------------|----------------------------|--|
| <b>September 30,</b>       |                            |  |
| <b>2019</b>                | <b>2018</b>                |  |
| ("2019/2020 Run-off Year") | ("2018/2019 Treaty Year ") |  |

**Provisional ceding commission rate on quota share treaty**

|                |        |     |
|----------------|--------|-----|
| Personal lines | 0% (1) | 53% |
|----------------|--------|-----|

- (1) The 2017/2019 Treaty expired on a run-off basis effective July 1, 2019, allowing for provisional ceding commissions to be earned during the 2019/2020 Run-off Year.

The following table summarizes the changes in the components of ceding commission revenue (in thousands) for the periods indicated:

| (\$ in thousands)                     | Three months ended September 30, |                 |                |         |
|---------------------------------------|----------------------------------|-----------------|----------------|---------|
|                                       | 2019                             | 2018            | Change         | Percent |
| Provisional ceding commissions earned | \$ 1,320                         | \$ 1,255        | \$ 65          | 5.2%    |
| Contingent ceding commissions earned  | (290)                            | (210)           | (80)           | 38.1%   |
| Total ceding commission revenue       | <u>\$ 1,030</u>                  | <u>\$ 1,045</u> | <u>\$ (15)</u> | (1.4)%  |

Ceding commission revenue was \$1,030,000 in Three Months 2019 compared to \$1,045,000 in Three Months 2018. The decrease of \$15,000, or 1.4%, was due to an increase in provisional ceding commissions earned, partially offset by a decrease in contingent ceding commissions earned. See below for discussion of provisional ceding commissions earned and contingent ceding commissions earned.

#### *Provisional Ceding Commissions Earned*

We receive a provisional ceding commission based on ceded written premiums. The \$65,000 increase in provisional ceding commissions earned is primarily due to the increase in personal lines direct written premiums subject to the quota share before the effective date of the 2019 Run-off and the continuation of ceded earned premiums in the 2019/2020 Run-off Year.

#### *Contingent Ceding Commissions Earned*

We receive a contingent ceding commission based on a sliding scale in relation to the losses incurred under our quota share treaties. The lower the ceded loss ratio, the more contingent commission we receive. The amount of contingent ceding commissions we are eligible to receive under the 2017/2019 Treaty is subject to change based on losses incurred from claims with accident dates beginning July 1, 2017. The amount of contingent ceding commissions we are eligible to receive under our prior years' quota share treaties is subject to change based on losses incurred related to claims with accident dates before July 1, 2017.

The 2017/2019 Treaty structure limits the amount of contingent ceding commissions that we can receive by setting a higher provisional commission rate than the rates received in prior years. As a result of the higher upfront provisional ceding commissions that we received under the 2017/2019 Treaty, there is not an opportunity to earn additional contingent ceding commissions under this treaty. Under the 2017/2019 Treaty "net" treaty structure, catastrophe losses in excess of the \$5,000,000 retention will fall outside of the quota share treaty and such losses will not have an impact on contingent ceding commissions. In Three Months 2018, catastrophe losses of \$1,497,000 were ceded under our personal lines quota share treaty. These catastrophe losses resulted in the Loss Ratios for the period July 1, 2017 through June 30, 2018 (attributable to the 2017/2019 Treaty) being higher than the contractual Loss Ratio at which provisional ceding commissions were being earned. Effective July 1, 2018, the provisional ceding commission rate was a fixed rate with no downward adjustment required related to Loss Ratio; accordingly, in Three Months 2019, catastrophe losses of \$808,000 that were ceded under our personal lines quota share treaty did not have an effect on contingent ceding commissions. See "Reinsurance" below for information as to our personal lines quota share treaty effective July 1, 2019, 2018 and 2017.

**Net Investment Income**

Net investment income was \$1,856,000 in Three Months 2019 compared to \$1,602,000 in Three Months 2018. The increase of \$254,000, or 15.9%, was due to an increase in average invested assets in Three Months 2019. The average yield on invested assets was 3.62% as of September 30, 2019 compared to 3.72% as of September 30, 2018. The pre-tax equivalent yield on invested assets was 3.37% and 3.44% as of September 30, 2019 and 2018, respectively.

Cash and invested assets were \$221,610,000 as of September 30, 2019, compared to \$196,595,000 as of September 30, 2018. The \$25,015,000 increase in cash and invested assets resulted primarily from increased operating cash flows for the period after September 30, 2018.

**Net Gains and Losses on Investments**

Net gains on investments were \$998,000 and \$352,000 in Three Months 2019 and Three Months 2018, respectively. Unrealized gains on our equity securities and other investments were \$1,007,000 and \$409,000 in Three Months 2019 and Three Months 2018, respectively. Realized losses on sales of investments were \$8,000 and \$57,000 in Three Months 2019 and Three Months 2018, respectively.

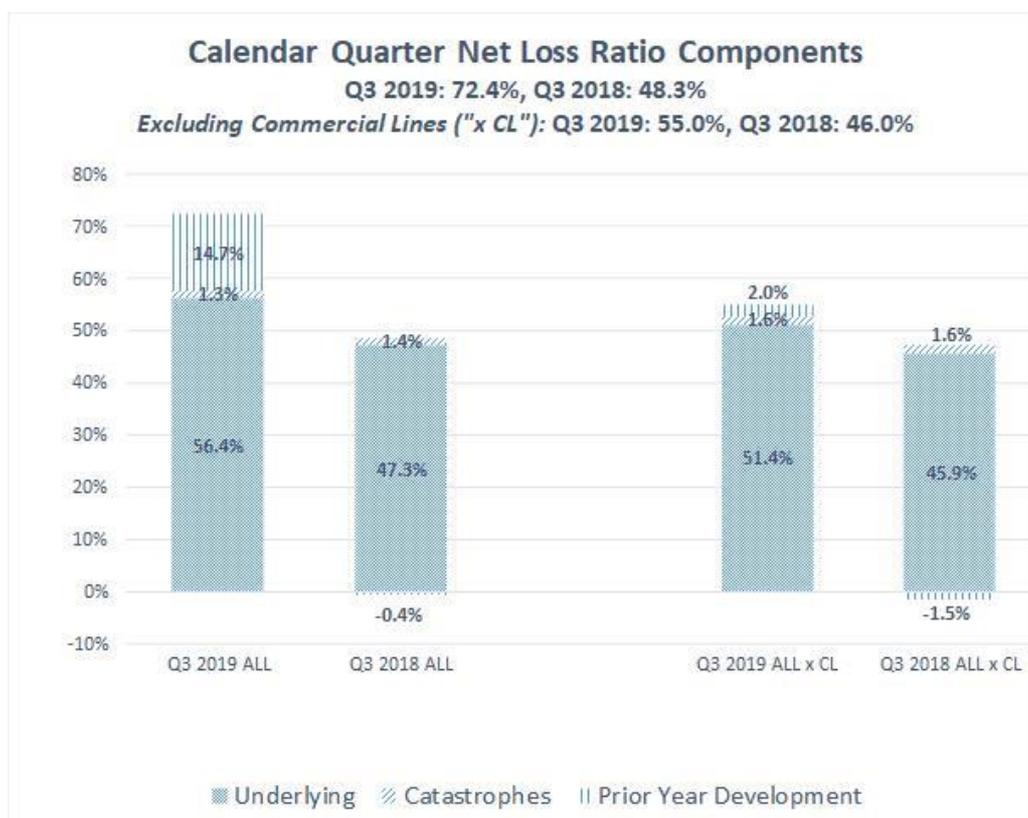
**Other Income**

Other income was \$496,000 in Three Months 2019 compared to \$353,000 in Three Months 2018. The increase of \$143,000, or 40.5%, was primarily due to commission revenue from Cosi and an increase in installment and other fees earned in our insurance underwriting business in Three Months 2019.

**Net Loss and LAE**

Net loss and LAE was \$24,781,000 in Three Months 2019 compared to \$13,297,000 in Three Months 2018. The net loss ratio was 72.4% in Three Months 2019 compared to 48.3% in Three Months 2018, an increase of 24.1 percentage points.

The following graph summarizes the changes in the components of net loss ratio for the periods indicated, along with the comparable components excluding commercial lines business:



*(Percent components may not sum to totals due to rounding)*

During Three Months 2019, the net loss ratio increased by 24.1 points compared to Three Months 2018 for several reasons. First, a continued evaluation of case reserve levels resulted in an additional \$5.0 million of prior year development for the quarter, impacting the quarterly loss ratio by 14.7 points. This compares to 0.4 points of favorable prior year loss development in Three Months 2018, or an increase in the impact of prior year loss development of 15.1 points. Prior year loss development for the quarter was primarily related to older liability claims, of which, \$4.4 million were related to commercial lines liability claims. During the quarter, an external actuarial review was completed that was specific to those lines affected by liability case reserve adjustments made earlier in the year. The external review analyzed the adequacy of a sampling of individual case reserves after the case reserve adjustments. Following this external review, it was determined that additional adjustments to IBNR and expected ultimate losses for prior years were needed. This resulted in the additional prior year loss development recorded during the Three Months 2019. Excluding commercial lines, the impact of prior year development in Three Months 2019 was 2.0 points, compared to 1.5 points of favorable prior year development in Three Months 2018, or an increase in the impact of prior year development of 3.5 points. The impact from catastrophe losses during the Three Months 2019 was 1.3 points, compared to a 1.4 point impact from catastrophes for the Three Months 2018, or a reduction in the impact of catastrophes of 0.1 point.

The underlying loss ratio excluding the impact of catastrophes and prior year development was 56.4% in Three Months 2019, compared to 47.3% in Three Months 2018, an increase of 9.1 points. The underlying loss ratio increased for three reasons. First, continued higher claim severity was observed for personal lines related to non-weather related water claims. Second, fire claim activity was unusually high for Three Months 2019 in personal lines. Third, the external actuarial review of reserve levels resulted in a higher commercial lines loss ratio expectation for the current accident year than was recorded for Three Months 2018. Excluding commercial lines, the underlying loss ratio excluding the impact of catastrophes and prior year development was 51.4% in Three Months 2019, compared to 45.9% in Three Months 2018, or an increase of 5.5 points. See table below under “Additional Financial Information” summarizing net loss ratios by line of business.

#### Commission Expense

Commission expense was \$7,779,000 in Three Months 2019 or 18.8% of direct earned premiums. Commission expense was \$6,594,000 in Three Months 2018 or 19.2% of direct earned premiums. The increase of \$1,185,000 is due to the increase in direct earned premiums in Three Months 2019 as compared to Three Months 2018. The decrease in commission rate was due to the decrease in commercial lines premiums related to our decision to stop writing these lines beginning in July 2019. Commercial lines has a lower average commission rate than our other continuing lines of business.

## Other Underwriting Expenses

Other underwriting expenses were \$6,431,000 in Three Months 2019 compared to \$5,194,000 in Three Months 2018. The increase of \$1,237,000, or 23.8%, was primarily due to expenses related to growth in direct written premiums. Expenses directly related to the increase in direct written premiums primarily consist of underwriting expenses, software usage fees, and state premium taxes. Expenses indirectly related to the increase in direct written premiums primarily consist of salaries along with related other employment costs. The 23.8% increase in other underwriting expenses was greater than the 18.7% increase in total direct written premiums. The greater increase in other underwriting expenses compared to direct written premium growth is primarily due to the decline in commercial lines premiums written.

The largest single component of other underwriting expenses is salaries and employment costs, with costs of \$2,737,000 in Three Months 2019 compared to \$2,339,000 in Three Months 2018. The increase of \$398,000, or 17.0%, was less than the 18.7% increase in total direct written premiums. The increase in employment costs was due to hiring of additional staff to service our current level of business and anticipated growth in volume, as well as annual increases in salaries.

Our net underwriting expense ratio in Three Months 2019 was 37.5% compared to 37.7% in Three Months 2018. The following table shows the individual components of our net underwriting expense ratio for the periods indicated:

|   | <u>Three months ended September 30,</u> |              | <u>Percentage Point<br/>Change</u> |
|---|---|--------------|------------------------------------|
|   | <u>2019</u>                             | <u>2018</u>  |                                    |
| Other underwriting expenses                   |   |              |                                    |
| Employment costs                              | 8.0%                                    | 8.5%         | (0.5)                              |
| Underwriting fees (inspections/data services) | 2.3                                     | 2.4          | (0.1)                              |
| Other expenses                                | 8.6                                     | 7.9          | 0.7                                |
| Total other underwriting expenses             | <u>18.9</u>                             | <u>18.8</u>  | <u>0.1</u>                         |
| Ceding commission revenue                     |   |              |                                    |
| Provisional                                   | (3.9)                                   | (4.6)        | 0.7                                |
| Contingent                                    | 0.8                                     | 0.8          | -                                  |
| Total ceding commission revenue               | <u>(3.1)</u>                            | <u>(3.8)</u> | <u>0.7</u>                         |
| Other income                                  | (1.0)                                   | (1.2)        | 0.3                                |
| Commission expense                            | <u>22.7</u>                             | <u>23.9</u>  | <u>(1.2)</u>                       |
| Net underwriting expense ratio                | <u>37.5%</u>                            | <u>37.7%</u> | <u>(0.2)</u>                       |

The overall 0.7 percentage point increase in provisional ceding commissions was driven entirely by the change in our quota share ceding rates and its impact on provisional ceding commission revenue due to the additional retention resulting from the cut-off to our quota share treaty on July 1, 2018 and run-off to our expired quota share treaty on July 1, 2019. The components of our net underwriting expense ratio related to other underwriting expenses, other income and commissions improved in nearly all categories, resulting in an overall 0.2 percentage point decrease in the net underwriting expense ratio.

#### Other Operating Expenses

Other operating expenses, related to the expenses of our holding company and Cosi, were \$705,000 for Three Months 2019 compared to \$683,000 for Three Months 2018. The increase in Three Months 2019 of \$22,000, or 3.2%, compared to Three Months 2018, was primarily due to increases in equity compensation, salaries, professional fees and Cosi commission expense, partially offset by a decrease in executive bonuses. The increase in salary was due to the initial hiring of staff for Cosi and the increase in equity compensation was due to 2019 annual restricted stock awards to directors and executives. Executive bonus compensation is accrued pursuant to the employment agreement effective January 1, 2017 with Barry B. Goldstein, our Executive Chairman and current Chief Executive Officer. The bonus is a one-time payment computed at the end of the three-year period ended December 31, 2019, and as of September 30, 2019 the three-year computation did not meet the required terms of profitability, resulting in the reversal of \$698,000 previously accrued.

#### Depreciation and Amortization

Depreciation and amortization was \$646,000 in Three Months 2019 compared to \$440,000 in Three Months 2018. The increase of \$206,000, or 46.8%, in depreciation and amortization was primarily due to depreciation of our new system platform for processing business being written in Expansion states. The increase was also impacted by newly purchased assets used to upgrade our systems infrastructure and improvements to the Kingston, New York home office building from which we operate.

#### Interest Expense

Interest expense in Three Months 2019 and Three Months 2018 was \$457,000. We incurred interest expense in connection with our \$30.0 million issuance of long-term debt in December 2017.

#### Income Tax Benefit/Expense

Income tax benefit in Three Months 2019 was \$474,000, which resulted in an effective tax rate of 21.6%. Income tax expense in Three Months 2018 was \$287,000, which resulted in an effective tax rate of 6.8%. Loss before taxes was \$2,199,000 in Three Months 2019 compared to income before taxes of \$4,221,000 in Three Months 2018.

#### Net Loss/Income

Net loss was \$1,725,000 in Three Months 2019 compared to net income of \$3,934,000 in Three Months 2018. The decrease in net income of \$5,659,000, or 143.8%, was due to the circumstances described above, which caused the increase in our net loss ratio, decrease in ceding commission revenue, increases in other underwriting expenses, depreciation and amortization and interest expense, partially offset by the increase in our net premiums earned, net investment income and gains on investments.

## Additional Financial Information

We operate our business as one segment, property and casualty insurance. Within this segment, we offer an array of property and casualty policies to our producers. The following table summarizes gross and net written premiums, net premiums earned, and net loss and loss adjustment expenses by major product type, which were determined based primarily on similar economic characteristics and risks of loss.

|  | For the Three Months Ended |               | For the Nine Months Ended |                |
|--|----------------------------|---------------|---------------------------|----------------|
|  | September 30,              |               | September 30,             |                |
|  | 2019                       | 2018          | 2019                      | 2018           |
| <b>Gross premiums written:</b>                       |                            |               |                           |                |
| Personal lines                                       | \$ 40,996,459              | \$ 32,544,609 | \$ 109,143,415            | \$ 87,022,189  |
| Livery physical damage                               | 2,590,434                  | 2,363,844     | 8,199,269                 | 7,142,413      |
| Other(1)   | 401,073                    | 69,486        | 535,950                   | 186,285        |
| Total without commercial lines                       | 43,987,966                 | 34,977,939    | 117,878,634               | 94,350,887     |
| Commercial lines (in run-off effective July 2019)(2) | 2,036,185                  | 3,807,533     | 10,455,421                | 12,825,369     |
| Total gross premiums written                         | \$ 46,024,151              | \$ 38,785,472 | \$ 128,334,055            | \$ 107,176,256 |
| <b>Net premiums written:</b>                         |                            |               |                           |                |
| Personal lines(3)                                    | \$ 35,442,970              | \$ 30,352,772 | \$ 89,287,063             | \$ 69,016,575  |
| Livery physical damage                               | 2,590,434                  | 2,363,844     | 8,199,269                 | 7,142,413      |
| Other(1)   | 400,317                    | 73,449        | 522,596                   | 169,709        |
| Total without commercial lines                       | 38,433,721                 | 32,790,065    | 98,008,928                | 76,328,697     |
| Commercial lines (in run-off effective July 2019)(2) | 2,004,152                  | 3,311,707     | 9,411,053                 | 11,438,135     |
| Total net premiums written                           | \$ 40,437,873              | \$ 36,101,772 | \$ 107,419,981            | \$ 87,766,832  |
| <b>Net premiums earned:</b>                          |                            |               |                           |                |
| Personal lines(3)                                    | \$ 27,487,526              | \$ 21,537,581 | \$ 75,737,374             | \$ 56,809,219  |
| Livery physical damage                               | 2,712,283                  | 2,398,005     | 7,850,822                 | 7,320,065      |
| Other(1)   | 275,324                    | 56,091        | 392,745                   | 150,942        |
| Total without commercial lines                       | 30,475,133                 | 23,991,677    | 83,980,941                | 64,280,226     |
| Commercial lines (in run-off effective July 2019)(2) | 3,744,877                  | 3,542,230     | 11,036,237                | 10,195,912     |
| Total net premiums earned                            | \$ 34,220,010              | \$ 27,533,907 | \$ 95,017,178             | \$ 74,476,138  |
| <b>Net loss and loss adjustment expenses(4):</b>     |                            |               |                           |                |
| Personal lines                                       | \$ 14,389,168              | \$ 9,652,796  | \$ 46,666,275             | \$ 31,096,528  |
| Livery physical damage                               | 1,395,630                  | 894,874       | 3,816,390                 | 3,160,670      |
| Other(1)   | 246,811                    | (63,570)      | 573,376                   | 313,408        |
| Unallocated loss adjustment expenses                 | 726,778                    | 548,819       | 2,072,570                 | 1,654,466      |
| Total without commercial lines                       | 16,758,387                 | 11,032,919    | 53,128,611                | 36,225,072     |
| Commercial lines (in run-off effective July 2019)(2) | 8,022,931                  | 2,263,789     | 18,459,239                | 5,514,051      |
| Total net loss and loss adjustment expenses          | \$ 24,781,318              | \$ 13,296,708 | \$ 71,587,850             | \$ 41,739,123  |
| <b>Net loss ratio(4):</b>                            |                            |               |                           |                |
| Personal lines                                       | 52.3%                      | 44.8%         | 61.6%                     | 54.7%          |
| Livery physical damage                               | 51.5%                      | 37.3%         | 48.6%                     | 43.2%          |
| Other(1)   | 89.6%                      | -113.3%       | 146.0%                    | 207.6%         |
| Total without commercial lines                       | 55.0%                      | 46.0%         | 63.3%                     | 56.4%          |
| Commercial lines (in run-off effective July 2019)(2) | 214.2%                     | 63.9%         | 167.3%                    | 54.1%          |
| Total  | 72.4%                      | 48.3%         | 75.3%                     | 56.0%          |

(1) "Other" includes, among other things, premiums and loss and loss adjustment expenses from our participation in a mandatory state joint underwriting association and loss and loss adjustment expenses from commercial auto.

(2) In July 2019, we decided that we will no longer underwrite Commercial Liability risks. See discussions above regarding the discontinuation of this line of business.

(3) See discussions above with regard to "Net Written Premiums and Net Premiums Earned", as to changes in quota share ceding rates, effective July 1, 2018 and 2017.

(4) See discussions above with regard to "Net Loss and LAE", as to catastrophe losses in the three and nine months ended September 30, 2019 and 2018.

## Insurance Underwriting Business on a Standalone Basis

Our insurance underwriting business reported on a standalone basis for the periods indicated is as follows:

|  | Three months ended   |                      | Nine months ended     |                      |
|--|----------------------|----------------------|-----------------------|----------------------|
|  | September 30,        |                      | September 30,         |                      |
|  | 2019                 | 2018                 | 2019                  | 2018                 |
| <b>Revenues</b>  |                      |                      |                       |                      |
| Net premiums earned                                      | \$ 34,220,010        | \$ 27,533,907        | \$ 95,017,178         | \$ 74,476,138        |
| Ceding commission revenue                                | 1,029,582            | 1,044,529            | 2,982,960             | 4,430,855            |
| Net investment income                                    | 1,832,523            | 1,544,327            | 5,129,947             | 4,459,479            |
| Net gains (losses) on investments                        | 995,040              | 346,300              | 3,652,189             | (283,061)            |
| Other income   | 340,505              | 352,476              | 992,097               | 937,264              |
| Total revenues   | <u>38,417,660</u>    | <u>30,821,539</u>    | <u>107,774,371</u>    | <u>84,020,675</u>    |
| <b>Expenses</b>  |                      |                      |                       |                      |
| Loss and loss adjustment expenses                        | 24,781,318           | 13,296,708           | 71,587,850            | 41,739,123           |
| Commission expense                                       | 7,779,344            | 6,594,323            | 21,931,933            | 18,411,460           |
| Other underwriting expenses                              | 6,430,734            | 5,193,679            | 17,983,174            | 15,301,168           |
| Depreciation and amortization                            | 622,222              | 440,383              | 1,804,265             | 1,273,975            |
| Total expenses   | <u>39,613,618</u>    | <u>25,525,093</u>    | <u>113,307,222</u>    | <u>76,725,726</u>    |
| (Loss) income from operations                            | (1,195,958)          | 5,296,446            | (5,532,851)           | 7,294,949            |
| Income tax (benefit) expense                             | (293,183)            | 1,075,104            | (1,251,113)           | 1,452,750            |
| <b>Net (loss) income</b>                                 | <u>\$ (902,775)</u>  | <u>\$ 4,221,342</u>  | <u>\$ (4,281,738)</u> | <u>\$ 5,842,199</u>  |
| <b>Key Measures:</b>                                     |                      |                      |                       |                      |
| Net loss ratio   | 72.4%                | 48.3%                | 75.3%                 | 56.0%                |
| Net underwriting expense ratio                           | 37.5%                | 37.7%                | 37.8%                 | 38.1%                |
| Net combined ratio                                       | <u>109.9%</u>        | <u>86.0%</u>         | <u>113.1%</u>         | <u>94.1%</u>         |
| <b>Reconciliation of net underwriting expense ratio:</b> |                      |                      |                       |                      |
| Acquisition costs and other underwriting expenses        | \$ 14,210,078        | \$ 11,788,002        | \$ 39,915,107         | \$ 33,712,628        |
| Less: Ceding commission revenue                          | (1,029,582)          | (1,044,529)          | (2,982,960)           | (4,430,855)          |
| Less: Other income                                       | (340,505)            | (352,476)            | (992,097)             | (937,264)            |
| Net underwriting expenses                                | <u>\$ 12,839,991</u> | <u>\$ 10,390,997</u> | <u>\$ 35,940,050</u>  | <u>\$ 28,344,509</u> |
| Net premiums earned                                      | <u>\$ 34,220,010</u> | <u>\$ 27,533,907</u> | <u>\$ 95,017,178</u>  | <u>\$ 74,476,138</u> |
| Net Underwriting Expense Ratio                           | <u>37.5%</u>         | <u>37.7%</u>         | <u>37.8%</u>          | <u>38.1%</u>         |

An analysis of our direct, assumed and ceded earned premiums, loss and loss adjustment expenses, and loss ratios is shown below:

|  | <u>Direct</u>         | <u>Assumed</u>   | <u>Ceded</u>           | <u>Net</u>           |
|--|-----------------------|------------------|------------------------|----------------------|
| <b>Nine months ended September 30, 2019</b>                            |                       |                  |                        |                      |
| Written premiums   | \$ 128,333,117        | \$ 938           | \$ (20,914,074)        | \$ 107,419,981       |
| Change in unearned premiums  | (11,035,993)          | (559)            | (1,366,251)            | (12,402,803)         |
| Earned premiums  | <u>\$ 117,297,124</u> | <u>\$ 379</u>    | <u>\$ (22,280,325)</u> | <u>\$ 95,017,178</u> |
| Loss and loss adjustment expenses excluding the effect of catastrophes |                       |                  |                        |                      |
| Catastrophe loss   | \$ 72,683,118         | \$ (917)         | \$ (8,041,028)         | \$ 64,641,173        |
| Loss and loss adjustment expenses                                      | 7,755,089             | -                | (808,412)              | 6,946,677            |
|  | <u>\$ 80,438,207</u>  | <u>\$ (917)</u>  | <u>\$ (8,849,440)</u>  | <u>\$ 71,587,850</u> |
| Loss ratio excluding the effect of catastrophes                        | 62.0%                 | -242.0%          | 36.1%                  | 68.0%                |
| Catastrophe loss   | 6.6%                  | 0.0%             | 3.6%                   | 7.3%                 |
| Loss ratio   | <u>68.6%</u>          | <u>-242.0%</u>   | <u>39.7%</u>           | <u>75.3%</u>         |
| <b>Nine months ended September 30, 2018</b>                            |                       |                  |                        |                      |
| Written premiums   | \$ 107,175,413        | \$ 842           | \$ (19,409,423)        | \$ 87,766,832        |
| Change in unearned premiums  | (9,930,503)           | 3,762            | (3,363,953)            | (13,290,694)         |
| Earned premiums  | <u>\$ 97,244,910</u>  | <u>\$ 4,604</u>  | <u>\$ (22,773,376)</u> | <u>\$ 74,476,138</u> |
| Loss and loss adjustment expenses excluding the effect of catastrophes |                       |                  |                        |                      |
| Catastrophe loss   | \$ 42,575,980         | \$ 27,037        | \$ (6,983,566)         | \$ 35,619,451        |
| Loss and loss adjustment expenses                                      | 10,804,633            | -                | (4,684,961)            | 6,119,672            |
|  | <u>\$ 53,380,613</u>  | <u>\$ 27,037</u> | <u>\$ (11,668,527)</u> | <u>\$ 41,739,123</u> |
| Loss ratio excluding the effect of catastrophes                        | 43.8%                 | 587.3%           | 30.7%                  | 47.8%                |
| Catastrophe loss   | 11.1%                 | 0.0%             | 20.5%                  | 8.2%                 |
| Loss ratio   | <u>54.9%</u>          | <u>587.3%</u>    | <u>51.2%</u>           | <u>56.0%</u>         |
| <b>Three months ended September 30, 2019</b>                           |                       |                  |                        |                      |
| Written premiums   | \$ 46,023,290         | \$ 861           | \$ (5,586,278)         | \$ 40,437,873        |
| Change in unearned premiums  | (4,579,777)           | (761)            | (1,637,325)            | (6,217,863)          |
| Earned premiums  | <u>\$ 41,443,513</u>  | <u>\$ 100</u>    | <u>\$ (7,223,603)</u>  | <u>\$ 34,220,010</u> |
| Loss and loss adjustment expenses excluding the effect of catastrophes |                       |                  |                        |                      |
| Catastrophe loss   | \$ 26,516,544         | \$ 1,164         | \$ (2,182,511)         | \$ 24,335,197        |
| Loss and loss adjustment expenses                                      | 491,362               | -                | (45,241)               | 446,121              |
|  | <u>\$ 27,007,906</u>  | <u>\$ 1,164</u>  | <u>\$ (2,227,752)</u>  | <u>\$ 24,781,318</u> |
| Loss ratio excluding the effect of catastrophes                        | 64.0%                 | 1164.0%          | 30.2%                  | 71.1%                |
| Catastrophe loss   | 1.2%                  | 0.0%             | 0.6%                   | 1.3%                 |
| Loss ratio   | <u>65.2%</u>          | <u>1164.0%</u>   | <u>30.8%</u>           | <u>72.4%</u>         |
| <b>Three months ended September 30, 2018</b>                           |                       |                  |                        |                      |
| Written premiums   | \$ 38,785,453         | \$ 18            | \$ (2,683,699)         | \$ 36,101,772        |
| Change in unearned premiums  | (4,435,174)           | 698              | (4,133,389)            | (8,567,865)          |
| Earned premiums  | <u>\$ 34,350,279</u>  | <u>\$ 716</u>    | <u>\$ (6,817,088)</u>  | <u>\$ 27,533,907</u> |
| Loss and loss adjustment expenses excluding the effect of catastrophes |                       |                  |                        |                      |
| Catastrophe loss   | \$ 16,700,865         | \$ 4,104         | \$ (3,797,536)         | \$ 12,907,433        |
| Loss and loss adjustment expenses                                      | 243,244               | -                | 146,031                | 389,275              |
|  | <u>\$ 16,944,109</u>  | <u>\$ 4,104</u>  | <u>\$ (3,651,505)</u>  | <u>\$ 13,296,708</u> |
| Loss ratio excluding the effect of catastrophes                        | 48.6%                 | 573.2%           | 55.7%                  | 46.9%                |
| Catastrophe loss   | 0.7%                  | 0.0%             | -2.1%                  | 1.4%                 |
| Loss ratio   | <u>49.3%</u>          | <u>573.2%</u>    | <u>53.6%</u>           | <u>48.3%</u>         |

The key measures for our insurance underwriting business for the periods indicated are as follows:

|   | Three months ended |               | Nine months ended |               |
|---|--------------------|---------------|-------------------|---------------|
|   | September 30,      |               | September 30,     |               |
|   | 2019               | 2018          | 2019              | 2018          |
| Net premiums earned   | \$ 34,220,010      | \$ 27,533,907 | \$ 95,017,178     | \$ 74,476,138 |
| Ceding commission revenue   | 1,029,582          | 1,044,529     | 2,982,960         | 4,430,855     |
| Other income  | 340,505            | 352,476       | 992,097           | 937,264       |
| Loss and loss adjustment expenses (1)                               | 24,781,318         | 13,296,708    | 71,587,850        | 41,739,123    |
| Acquisition costs and other underwriting expenses:                  |                    |               |                   |               |
| Commission expense  | 7,779,344          | 6,594,323     | 21,931,933        | 18,411,460    |
| Other underwriting expenses   | 6,430,734          | 5,193,679     | 17,983,174        | 15,301,168    |
| Total acquisition costs and other underwriting expenses             | 14,210,078         | 11,788,002    | 39,915,107        | 33,712,628    |
| Underwriting (loss) income  | \$ (3,401,299)     | \$ 3,846,202  | \$ (12,510,722)   | \$ 4,392,506  |
| Key Measures:   |                    |               |                   |               |
| Net loss ratio excluding the effect of catastrophes                 | 71.1%              | 46.9%         | 68.0%             | 47.8%         |
| Effect of catastrophe loss on net loss ratio (1)                    | 1.3%               | 1.4%          | 7.3%              | 8.2%          |
| Net loss ratio  | 72.4%              | 48.3%         | 75.3%             | 56.0%         |
| Net underwriting expense ratio excluding the effect of catastrophes | 37.5%              | 37.7%         | 37.8%             | 37.5%         |
| Effect of catastrophe loss on net underwriting expense ratio (2)    | 0.0%               | 0.0%          | 0.0%              | 0.6%          |
| Net underwriting expense ratio                                      | 37.5%              | 37.7%         | 37.8%             | 38.1%         |
| Net combined ratio excluding the effect of catastrophes             | 108.6%             | 84.6%         | 105.8%            | 85.3%         |
| Effect of catastrophe loss on net combined ratio (1) (2)            | 1.3%               | 1.4%          | 7.3%              | 8.8%          |
| Net combined ratio  | 109.9%             | 86.0%         | 113.1%            | 94.1%         |
| Reconciliation of net underwriting expense ratio:                   |                    |               |                   |               |
| Acquisition costs and other underwriting expenses                   | \$ 14,210,078      | \$ 11,788,002 | \$ 39,915,107     | \$ 33,712,628 |
| Less: Ceding commission revenue (2)                                 | (1,029,582)        | (1,044,529)   | (2,982,960)       | (4,430,855)   |
| Less: Other income  | (340,505)          | (352,476)     | (992,097)         | (937,264)     |
|   | \$ 12,839,991      | \$ 10,390,997 | \$ 35,940,050     | \$ 28,344,509 |
| Net earned premium  | \$ 34,220,010      | \$ 27,533,907 | \$ 95,017,178     | \$ 74,476,138 |
| Net Underwriting Expense Ratio                                      | 37.5%              | 37.7%         | 37.8%             | 38.1%         |

(1) For the three months ended September 30, 2019 and 2018, includes the sum of net catastrophe losses and loss adjustment expenses of \$446,121 and \$389,276, respectively. For the nine months ended September 30, 2019 and 2018, includes the sum of net catastrophe losses and loss adjustment expenses of \$6,946,677 and \$6,119,672, respectively.

(2) For the nine months ended September 30, 2018, the effect of catastrophe loss on our net underwriting expense ratio includes the effect of reduced contingent ceding commission revenue by \$459,068 and does not include the indirect effects of a \$267,508 decrease in other underwriting expenses.

## Investments

### Portfolio Summary

#### Fixed-Maturity Securities

The following table presents a breakdown of the amortized cost, estimated fair value, and unrealized gains and losses of our investments in fixed-maturity securities classified as available-for-sale as of September 30, 2019 and December 31, 2018:

| Category  | September 30, 2019           |                              |                         |                        |                            |                                 |
|---|------------------------------|------------------------------|-------------------------|------------------------|----------------------------|---------------------------------|
|   | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross Unrealized Losses |                        | Estimated<br>Fair<br>Value | % of<br>Estimated<br>Fair Value |
|   |                              |                              | Less than 12<br>Months  | More than 12<br>Months |                            |                                 |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 8,243,486                 | \$ 156,066                   | \$ -                    | \$ -                   | \$ 8,399,552               | 5.1%                            |
| Political subdivisions of States, Territories and Possessions                         | 5,662,999                    | 187,006                      | -                       | -                      | 5,850,005                  | 3.5%                            |
| Corporate and other bonds   |                              |                              |                         |                        |                            |                                 |
| Industrial and miscellaneous  | 124,956,806                  | 5,365,954                    | (33,073)                | (20,893)               | 130,268,794                | 78.3%                           |
| Residential mortgage and other asset backed securities (1)                            | 21,737,713                   | 297,257                      | (19,924)                | (312,685)              | 21,702,361                 | 13.1%                           |
| <b>Total fixed-maturity securities</b>  | <b>\$160,601,004</b>         | <b>\$ 6,006,283</b>          | <b>\$ (52,997)</b>      | <b>\$ (333,578)</b>    | <b>\$166,220,712</b>       | <b>100.0%</b>                   |

(1) In 2017, KICO placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its membership in the Federal Home Loan Bank of New York ("FHLBNY"). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from the FHLBNY credit line. As of September 30, 2019, the estimated fair value of the eligible investments was approximately \$5,144,000. KICO will retain all rights regarding all securities if pledged as collateral. As of September 30, 2019, there was no outstanding balance on the FHLBNY credit line.

| Category  | December 31, 2018            |                              |                         |                        |                            |                                 |
|---|------------------------------|------------------------------|-------------------------|------------------------|----------------------------|---------------------------------|
|   | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross Unrealized Losses |                        | Estimated<br>Fair<br>Value | % of<br>Estimated<br>Fair Value |
|   |                              |                              | Less than 12<br>Months  | More than 12<br>Months |                            |                                 |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 8,222,050                 | \$ 26,331                    | \$ (28,000)             | \$ -                   | \$ 8,220,381               | 5.4%                            |
| Political subdivisions of States, Territories and Possessions                         | 6,339,540                    | 50,903                       | (12,327)                | (36,508)               | 6,341,608                  | 4.2%                            |
| Corporate and other bonds   |                              |                              |                         |                        |                            |                                 |
| Industrial and miscellaneous  | 119,078,698                  | 123,740                      | (2,775,540)             | (676,605)              | 115,750,293                | 76.3%                           |
| Residential mortgage and other asset backed securities (1)                            | 21,790,973                   | 236,502                      | (231,229)               | (331,012)              | 21,465,234                 | 14.1%                           |
| <b>Total fixed-maturity securities</b>  | <b>\$155,431,261</b>         | <b>\$ 437,476</b>            | <b>\$ (3,047,096)</b>   | <b>\$ (1,044,125)</b>  | <b>\$151,777,516</b>       | <b>100.0%</b>                   |

(1) In 2017, KICO placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its relationship with the Federal Home Loan Bank of New York ("FHLBNY"). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from FHLBNY. As of December 31, 2018, the estimated fair value of the eligible investments was \$5,116,000. KICO will retain all rights regarding all securities if pledged as collateral. As of December 31, 2018, there was no outstanding balance on the FHLBNY credit line.

## Equity Securities

The following table presents a breakdown of the cost, estimated fair value, and gross gains and losses of investments in equity securities as of September 30, 2019 and December 31, 2018:

| Category                                       | September 30, 2019   |                     |                       |                      |                           |
|--|----------------------|---------------------|-----------------------|----------------------|---------------------------|
|  | Cost                 | Gross Gains         | Gross Losses          | Estimated Fair Value | % of Estimated Fair Value |
| <b>Equity Securities:</b>                      |                      |                     |                       |                      |                           |
| Preferred stocks                               | \$ 8,415,227         | \$ 394,815          | \$ (16,042)           | \$ 8,794,000         | 37.4%                     |
| Common stocks and exchange traded mutual funds | 13,655,339           | 1,537,211           | (487,351)             | 14,705,199           | 62.6%                     |
| Total  | <u>\$ 22,070,566</u> | <u>\$ 1,932,026</u> | <u>\$ (503,393)</u>   | <u>\$ 23,499,199</u> | <u>100.0%</u>             |
| Category                                       | December 31, 2018    |                     |                       |                      |                           |
|  | Cost                 | Gross Gains         | Gross Losses          | Estimated Fair Value | % of Estimated Fair Value |
| <b>Equity Securities:</b>                      |                      |                     |                       |                      |                           |
| Preferred stocks                               | \$ 6,694,754         | \$ -                | \$ (541,798)          | \$ 6,152,956         | 37.1%                     |
| Common stocks and exchange traded mutual funds | 11,611,232           | 99,817              | (1,291,389)           | 10,419,660           | 62.9%                     |
| Total  | <u>\$ 18,305,986</u> | <u>\$ 99,817</u>    | <u>\$ (1,833,187)</u> | <u>\$ 16,572,616</u> | <u>100.0%</u>             |

## Other Investments

Pursuant to ASC 820 "Fair Value Measurement," an entity is permitted, as a practical expedient, to estimate the fair value of an investment within the scope of ASC 820 using the net asset value ("NAV") per share (or its equivalent) of the investment. The following table presents a breakdown of the cost, estimated fair value, and gross unrealized gains and losses of our other investments as of September 30, 2019 and December 31, 2018:

| Category                  | September 30, 2019  |                   |                      | December 31, 2018   |                     |                      |
|---------------------------|---------------------|-------------------|----------------------|---------------------|---------------------|----------------------|
|                           | Cost                | Gross Gains       | Estimated Fair Value | Cost                | Gross Losses        | Estimated Fair Value |
| <b>Other Investments:</b> |                     |                   |                      |                     |                     |                      |
| Hedge fund                | \$ 1,999,381        | \$ 426,523        | \$ 2,425,904         | \$ 1,999,381        | \$ (144,156)        | \$ 1,855,225         |
| Total                     | <u>\$ 1,999,381</u> | <u>\$ 426,523</u> | <u>\$ 2,425,904</u>  | <u>\$ 1,999,381</u> | <u>\$ (144,156)</u> | <u>\$ 1,855,225</u>  |

## Held-to-Maturity Securities

The following table presents a breakdown of the amortized cost, estimated fair value, and unrealized gains and losses of investments in held-to-maturity securities as of September 30, 2019 and December 31, 2018:

| Category  | September 30, 2019     |                        |                         |                     |                      |                           |
|---|------------------------|------------------------|-------------------------|---------------------|----------------------|---------------------------|
|   | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses |                     | Estimated Fair Value | % of Estimated Fair Value |
|   |                        |                        | Less than 12 Months     | More than 12 Months |                      |                           |
| U.S. Treasury securities                                      | \$ 729,539             | \$ 153,088             | \$ -                    | \$ -                | \$ 882,627           | 21.4%                     |
| Political subdivisions of States, Territories and Possessions | 998,668                | 50,357                 | -                       | -                   | 1,049,025            | 25.4%                     |
| Corporate and other bonds Industrial and miscellaneous        | 2,097,298              | 98,434                 | -                       | -                   | 2,195,732            | 53.2%                     |
| Total   | <u>\$ 3,825,505</u>    | <u>\$ 301,879</u>      | <u>\$ -</u>             | <u>\$ -</u>         | <u>\$ 4,127,384</u>  | <u>100.0%</u>             |

December 31, 2018

| Category   | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross Unrealized Losses  |                        | Estimated<br>Fair<br>Value | % of<br>Estimated<br>Fair Value |
|--|------------------------------|------------------------------|--------------------------|------------------------|----------------------------|---------------------------------|
|  |                              |                              | Less than 12<br>Months   | More than 12<br>Months |                            |                                 |
|  |                              |                              | U.S. Treasury securities | \$ 729,507             |                            |                                 |
| Political subdivisions of States,<br>Territories and Possessions | 998,803                      | 33,862                       | -                        | -                      | 1,032,665                  | 23.3%                           |
| Corporate and other bonds<br>Industrial and miscellaneous        | 2,494,545                    | 38,461                       | (1,425)                  | (10,905)               | 2,520,676                  | 57.0%                           |
| <b>Total</b>   | <b>\$ 4,222,855</b>          | <b>\$ 219,855</b>            | <b>\$ (5,389)</b>        | <b>\$ (10,905)</b>     | <b>\$ 4,426,416</b>        | <b>100.0%</b>                   |

Held-to-maturity U.S. Treasury securities are held in trust pursuant to various states' minimum fund requirements.

A summary of the amortized cost and fair value of our investments in held-to-maturity securities by contractual maturity as of September 30, 2019 and December 31, 2018 is shown below:

| Remaining Time to Maturity | September 30, 2019  |                         | December 31, 2018   |                         |
|----------------------------|---------------------|-------------------------|---------------------|-------------------------|
|                            | Amortized<br>Cost   | Estimated<br>Fair Value | Amortized<br>Cost   | Estimated<br>Fair Value |
|                            | Less than one year  | \$ 623,000              | \$ 629,143          | \$ -                    |
| One to five years          | 2,098,950           | 2,214,947               | 2,996,685           | 3,036,531               |
| Five to ten years          | 497,016             | 529,255                 | 619,663             | 635,846                 |
| More than 10 years         | 606,539             | 754,039                 | 606,507             | 754,039                 |
| <b>Total</b>               | <b>\$ 3,825,505</b> | <b>\$ 4,127,384</b>     | <b>\$ 4,222,855</b> | <b>\$ 4,426,416</b>     |

#### Credit Rating of Fixed-Maturity Securities

The table below summarizes the credit quality of our available-for-sale fixed-maturity securities as of September 30, 2019 and December 31, 2018 as rated by Standard & Poor's (or, if unavailable from Standard & Poor's, then Moody's or Fitch):

| Rating                                       | September 30, 2019                |                                       | December 31, 2018                 |                                       |
|--|-----------------------------------|---------------------------------------|-----------------------------------|---------------------------------------|
|  | Estimated<br>Fair Market<br>Value | Percentage of<br>Fair Market<br>Value | Estimated<br>Fair Market<br>Value | Percentage of<br>Fair Market<br>Value |
|  | U.S. Treasury securities          | \$ 8,399,552                          | 5.1%                              | \$ 8,220,381                          |
| Corporate and municipal bonds                |                                   |                                       |                                   |                                       |
| AAA  | 979,300                           | 0.6%                                  | 979,123                           | 0.6%                                  |
| AA   | 7,414,656                         | 4.5%                                  | 8,350,910                         | 5.5%                                  |
| A  | 35,473,122                        | 21.3%                                 | 27,665,961                        | 18.2%                                 |
| BBB  | 92,251,719                        | 55.5%                                 | 85,095,907                        | 56.1%                                 |
| Total corporate and municipal bonds          | 136,118,797                       | 81.9%                                 | 122,091,901                       | 80.4%                                 |
| Residential mortgage backed securities       |                                   |                                       |                                   |                                       |
| AAA  | 1,000,077                         | 0.6%                                  | 999,640                           | 0.7%                                  |
| AA   | 16,706,728                        | 10.1%                                 | 12,743,906                        | 8.5%                                  |
| A  | 1,530,921                         | 0.9%                                  | 4,777,356                         | 3.1%                                  |
| CCC  | 1,224,118                         | 0.7%                                  | 1,440,825                         | 0.9%                                  |
| CC   | 89,808                            | 0.1%                                  | 109,648                           | 0.1%                                  |
| C  | 20,029                            | 0.0%                                  | 24,050                            | 0.0%                                  |
| D  | 221,766                           | 0.1%                                  | 390,542                           | 0.3%                                  |
| Non rated                                    | 908,915                           | 0.5%                                  | 979,267                           | 0.6%                                  |
| Total residential mortgage backed securities | 21,702,362                        | 13.0%                                 | 21,465,234                        | 14.2%                                 |
| <b>Total</b>                                 | <b>\$ 166,220,711</b>             | <b>100.0%</b>                         | <b>\$ 151,777,516</b>             | <b>100.0%</b>                         |

The table below summarizes the average yield by type of fixed-maturity security as of September 30, 2019 and December 31, 2018:

| Category  | September 30,<br>2019 | December 31,<br>2018 |
|---|-----------------------|----------------------|
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | 2.13%                 | 2.20%                |
| Political subdivisions of States, Territories and Possessions                         | 3.48%                 | 3.62%                |
| Corporate and other bonds<br>Industrial and miscellaneous                             | 3.73%                 | 4.11%                |
| Residential mortgage and other asset backed securities                                | 2.44%                 | 1.94%                |
| Total   | 3.47%                 | 3.68%                |

The table below lists the weighted average maturity and effective duration in years on our fixed-maturity securities as of September 30, 2019 and December 31, 2018:

|                                     | September 30,<br>2019 | December 31,<br>2018 |
|-------------------------------------|-----------------------|----------------------|
| Weighted average effective maturity | 4.8                   | 5.6                  |
| Weighted average final maturity     | 6.3                   | 6.9                  |
| Effective duration                  | 4.3                   | 4.6                  |

#### ***Fair Value Consideration***

As disclosed in Note 4 to the condensed consolidated financial statements, with respect to “Fair Value Measurements,” we define fair value as the price that would be received to sell an asset or paid to transfer a liability in a transaction involving identical or comparable assets or liabilities between market participants (an “exit price”). The fair value hierarchy distinguishes between inputs based on market data from independent sources (“observable inputs”) and a reporting entity’s internal assumptions based upon the best information available when external market data is limited or unavailable (“unobservable inputs”). The fair value hierarchy prioritizes fair value measurements into three levels based on the nature of the inputs. Quoted prices in active markets for identical assets have the highest priority (“Level 1”), followed by observable inputs other than quoted prices including prices for similar but not identical assets or liabilities (“Level 2”), and unobservable inputs, including the reporting entity’s estimates of the assumption that market participants would use, having the lowest priority (“Level 3”). As of September 30, 2019 and December 31, 2018, 84% and 81%, respectively, of the investment portfolio recorded at fair value was priced based upon quoted market prices.

The table below summarizes the gross unrealized losses of our fixed-maturity securities available-for-sale and equity securities by length of time the security has continuously been in an unrealized loss position as of September 30, 2019 and December 31, 2018:

September 30, 2019

| Category  | Less than 12 months |                    |                | 12 months or more    |                     |                | Total                |                     |
|---|---------------------|--------------------|----------------|----------------------|---------------------|----------------|----------------------|---------------------|
|   | Estimated           | Unrealized         | No. of         | Estimated            | Unrealized          | No. of         | Estimated            | Unrealized          |
|   | Fair Value          | Losses             | Positions Held | Fair Value           | Losses              | Positions Held | Fair Value           | Losses              |
| <b>Fixed-Maturity Securities:</b>   |                     |                    |                |                      |                     |                |                      |                     |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ -                | \$ -               | -              | \$ 0                 | \$ -                | -              | \$ -                 | \$ -                |
| Political subdivisions of States, Territories and Possessions                         | -                   | -                  | -              | -                    | -                   | -              | -                    | -                   |
| Corporate and other bonds industrial and miscellaneous                                | 3,258,185           | (33,073)           | 6              | 3,170,889            | (20,893)            | 6              | 6,429,074            | (53,966)            |
| Residential mortgage and other asset backed securities                                | 3,008,874           | (19,924)           | 3              | 15,596,316           | (312,685)           | 23             | 18,605,190           | (332,609)           |
| Total fixed-maturity securities   | <u>\$ 6,267,059</u> | <u>\$ (52,997)</u> | <u>9</u>       | <u>\$ 18,767,205</u> | <u>\$ (333,578)</u> | <u>29</u>      | <u>\$ 25,034,264</u> | <u>\$ (386,575)</u> |

December 31, 2018

| Category  | Less than 12 months  |                       |                | 12 months or more    |                       |                | Total                 |                       |
|---|----------------------|-----------------------|----------------|----------------------|-----------------------|----------------|-----------------------|-----------------------|
|   | Estimated            | Unrealized            | No. of         | Estimated            | Unrealized            | No. of         | Aggregate             | Unrealized            |
|   | Fair Value           | Losses                | Positions Held | Fair Value           | Losses                | Positions Held | Fair Value            | Losses                |
| <b>Fixed-Maturity Securities:</b>   |                      |                       |                |                      |                       |                |                       |                       |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$ 4,948,530         | \$ (28,000)           | 3              | \$ -                 | \$ -                  | -              | \$ 4,948,530          | \$ (28,000)           |
| Political subdivisions of States, Territories and Possessions                         | 555,375              | (12,327)              | 1              | 1,436,242            | (36,508)              | 3              | 1,991,617             | (48,835)              |
| Corporate and other bonds industrial and miscellaneous                                | 81,004,459           | (2,775,540)           | 97             | 13,424,888           | (676,605)             | 24             | 94,429,347            | (3,452,145)           |
| Residential mortgage and other asset backed securities                                | 7,002,713            | (231,229)             | 9              | 11,928,425           | (331,012)             | 19             | 18,931,138            | (562,241)             |
| Total fixed-maturity securities   | <u>\$ 93,511,077</u> | <u>\$ (3,047,096)</u> | <u>110</u>     | <u>\$ 26,789,555</u> | <u>\$ (1,044,125)</u> | <u>46</u>      | <u>\$ 120,300,632</u> | <u>\$ (4,091,221)</u> |

There were 38 securities at September 30, 2019 that accounted for the gross unrealized loss of our fixed-maturity securities available-for-sale, none of which were deemed by us to be other than temporarily impaired. There were 156 securities at December 31, 2018 that accounted for the gross unrealized loss, none of which were deemed by us to be other than temporarily impaired. Significant factors influencing our determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent not to sell these securities and it being not more likely than not that we will be required to sell these investments before anticipated recovery of fair value to our cost basis.

## Liquidity and Capital Resources

### Cash Flows

The primary sources of cash flow are from our insurance underwriting subsidiary, KICO, and include direct premiums written, ceding commissions from our quota share reinsurers, loss recovery payments from our reinsurers, investment income and proceeds from the sale or maturity of investments. Funds are used by KICO for ceded premium payments to reinsurers, which are paid on a net basis after subtracting losses paid on reinsured claims and reinsurance commissions. KICO also uses funds for loss payments and loss adjustment expenses on our net business, commissions to producers, salaries and other underwriting expenses as well as to purchase investments and fixed assets.

For the nine months ended September 30, 2019, the primary source of cash flow for our holding company was the dividends received from KICO, subject to statutory restrictions. For the nine months ended September 30, 2019, KICO paid dividends of \$5,500,000 to us.

KICO is a member of the Federal Home Loan Bank of New York ("FHLBNY"), which provides additional access to liquidity. Members have access to a variety of flexible, low cost funding through FHLBNY's credit products, enabling members to customize advances. Advances are to be fully collateralized; eligible collateral to pledge to FHLBNY includes residential and commercial mortgage backed securities, along with U.S. Treasury and agency securities. See Note 3 to our consolidated financial statements – Investments, for eligible collateral held in a designated custodian account available for future advances. Advances are limited to 5% of KICO's net admitted assets as of the end of the previous quarter, which is June 30, 2019, and are due and payable within one year of borrowing. The maximum allowable advance as of September 30, 2019, based on the net admitted assets as of June 30, 2019, was approximately \$11,502,000. Advances are limited to 90% of the amount of available collateral, which was approximately \$4,630,000 as of September 30, 2019. There were no borrowings under this facility during the nine months ended September 30, 2019.

As of September 30, 2019, invested assets and cash in our holding company totaled approximately \$5,616,000. If the aforementioned sources of cash flow currently available are insufficient to cover our holding company cash requirements, we will seek to obtain additional financing.

Our reconciliation of net income to net cash provided by operations is generally influenced by the collection of premiums in advance of paid losses, the timing of reinsurance, issuing company settlements and loss payments.

Cash flow and liquidity are categorized into three sources: (1) operating activities; (2) investing activities; and (3) financing activities, which are shown in the following table:

Nine Months Ended September 30,

|   | 2019                 | 2018                 |
|---|----------------------|----------------------|
| Cash flows provided by (used in):                           |                      |                      |
| Operating activities  | \$ 19,537,965        | \$ 18,197,327        |
| Investing activities  | (12,085,316)         | (32,299,835)         |
| Financing activities  | (2,952,002)          | (4,385,449)          |
| <b>Net increase (decrease) in cash and cash equivalents</b> | <b>4,500,647</b>     | <b>(18,487,957)</b>  |
| Cash and cash equivalents, beginning of period              | 21,138,403           | 48,381,633           |
| <b>Cash and cash equivalents, end of period</b>             | <b>\$ 25,639,050</b> | <b>\$ 29,893,676</b> |

Net cash provided by operating activities was \$19,538,000 in Nine Months 2019 as compared to \$18,197,000 provided in Nine Months 2018. The \$1,341,000 increase in cash flows provided by operating activities in Nine Months 2019 was primarily a result of an increase in cash arising from net fluctuations in assets and liabilities, partially offset by a decrease in net income (adjusted for non-cash items) of \$16,409,000. The net fluctuations in assets and liabilities are related to operating activities of KICO as affected by the growth in its operations which are described above.

Net cash used in investing activities was \$12,085,000 in Nine Months 2019 compared to \$32,300,000 used in Nine Months 2018. The \$20,215,000 decrease in net cash used in investing activities was the result of a \$32,284,000 decrease in acquisitions of invested assets, partially offset by a \$10,882,000 decrease in sales or maturities of invested assets and a \$1,187,000 increase in fixed asset acquisitions in Nine Months 2019.

Net cash used in financing activities was \$2,952,000 in Nine Months 2019 compared to \$4,385,000 used in Nine Months 2018. The \$1,433,000 decrease in net cash used in financing activities was attributable to higher dividends and withholding taxes paid on net exercises of stock options paid in the prior year and a purchase of \$540,000 in treasury stock in Nine Months 2018 as compared to none in Nine Months 2019.

## Reinsurance

Our quota share reinsurance treaties are on a July 1 through June 30 fiscal year basis; therefore, for year to date fiscal periods after June 30, two separate treaties will be included in such periods.

Our quota share reinsurance treaties in effect during the nine months ended September 30, 2019 and 2018 for our personal lines business, which primarily consists of homeowners' policies, were covered under a treaty covering a two-year period from July 1, 2017 through June 30, 2019 ("2017/2019 Treaty"). The treaty in effect during the nine months ended September 30, 2019 was covered under the July 1, 2018 through June 30, 2019 treaty year ("2018/2019 Treaty Year"). The treaty in effect during the nine months ended September 30, 2018 was covered under the July 1, 2017 through June 30, 2018 treaty year ("2017/2018 Treaty Year") and the 2018/2019 Treaty Year that began on July 1, 2018.

In August 2018, we terminated our contract with one of the reinsurers that was a party to the 2017/2019 Treaty. This termination was retroactive to July 1, 2018 and had the effect of reducing the quota share ceding rate to 10% under the 2018/2019 Treaty Year from 20% under the 2017/2018 Treaty Year.

Effective July 1, 2019, our 2017/2019 Treaty and commercial umbrella treaty expired on a run-off basis; these treaties were not renewed. We entered into new excess of loss and catastrophe reinsurance treaties effective July 1, 2019. Material terms for our reinsurance treaties in effect for the treaty years shown below are as follows:

| Line of Business  | Treaty Year                         |                                     |                                     |
|---|-------------------------------------|-------------------------------------|-------------------------------------|
|   | July 1, 2019<br>to<br>June 30, 2020 | July 1, 2018<br>to<br>June 30, 2019 | July 1, 2017<br>to<br>June 30, 2018 |
| <b>Personal Lines:</b>  |                                     |                                     |                                     |
| Homeowners, dwelling fire and canine legal liability                            |                                     |                                     |                                     |
| Quota share treaty:   |                                     |                                     |                                     |
| Percent ceded   | None                                | 10%                                 | 20%                                 |
| Risk retained   | \$ 1,000,000                        | \$ 900,000                          | \$ 800,000                          |
| Losses per occurrence subject to quota share reinsurance coverage               | None                                | \$ 1,000,000                        | \$ 1,000,000                        |
| Excess of loss coverage and facultative facility above quota share coverage (1) | \$ 10,000,000                       | \$ 9,000,000                        | \$ 9,000,000                        |
|   |                                     | in excess of                        | in excess of                        |
|   |                                     | \$ 1,000,000                        | \$ 1,000,000                        |
| Total reinsurance coverage per occurrence                                       | \$ 9,000,000                        | \$ 9,100,000                        | \$ 9,200,000                        |
| Losses per occurrence subject to reinsurance coverage                           | \$ 10,000,000                       | \$ 10,000,000                       | \$ 10,000,000                       |
| Expiration date   | June 30, 2020                       | June 30, 2019                       | June 30, 2018                       |
| <b>Personal Umbrella</b>  |                                     |                                     |                                     |
| Quota share treaty:   |                                     |                                     |                                     |
| Percent ceded - first \$1,000,000 of coverage                                   | 90%                                 | 90%                                 | 90%                                 |
| Percent ceded - excess of \$1,000,000 dollars of coverage                       | 100%                                | 100%                                | 100%                                |
| Risk retained   | \$ 100,000                          | \$ 100,000                          | \$ 100,000                          |
| Total reinsurance coverage per occurrence                                       | \$ 4,900,000                        | \$ 4,900,000                        | \$ 4,900,000                        |
| Losses per occurrence subject to quota share reinsurance coverage               | \$ 5,000,000                        | \$ 5,000,000                        | \$ 5,000,000                        |
| Expiration date   | June 30, 2020                       | June 30, 2019                       | June 30, 2018                       |
| <b>Commercial Lines:</b>  |                                     |                                     |                                     |
| General liability commercial policies   |                                     |                                     |                                     |
| Quota share treaty  |                                     |                                     |                                     |
| Risk retained   | \$ 750,000                          | \$ 750,000                          | \$ 750,000                          |
| Excess of loss coverage above risk retained                                     | \$ 3,750,000                        | \$ 3,750,000                        | \$ 3,750,000                        |
|   | in excess of                        | in excess of                        | in excess of                        |
|   | \$ 750,000                          | \$ 750,000                          | \$ 750,000                          |
| Total reinsurance coverage per occurrence                                       | \$ 3,750,000                        | \$ 3,750,000                        | \$ 3,750,000                        |
| Losses per occurrence subject to reinsurance coverage                           | \$ 4,500,000                        | \$ 4,500,000                        | \$ 4,500,000                        |
| <b>Commercial Umbrella</b>  |                                     |                                     |                                     |
| Quota share treaty:   |                                     |                                     |                                     |
| Percent ceded - first \$1,000,000 of coverage                                   | None                                | 90%                                 | 90%                                 |
| Percent ceded - excess of \$1,000,000 of coverage                               |                                     | 100%                                | 100%                                |
| Risk retained   |                                     | \$ 100,000                          | \$ 100,000                          |
| Total reinsurance coverage per occurrence                                       |                                     | \$ 4,900,000                        | \$ 4,900,000                        |
| Losses per occurrence subject to quota share reinsurance coverage               |                                     | \$ 5,000,000                        | \$ 5,000,000                        |
| Expiration date   |                                     | June 30, 2019                       | June 30, 2018                       |
| <b>Catastrophe Reinsurance:</b>   |                                     |                                     |                                     |
| Initial loss subject to personal lines quota share treaty                       | None                                | \$ 5,000,000                        | \$ 5,000,000                        |
| Risk retained per catastrophe occurrence (2)                                    | \$ 7,500,000                        | \$ 4,500,000                        | \$ 4,000,000                        |
| Catastrophe loss coverage in excess of quota share coverage (3)                 | \$ 602,500,000                      | \$ 445,000,000                      | \$ 315,000,000                      |
| Reinstatement premium protection (4)(5)(6)                                      | Yes                                 | Yes                                 | Yes                                 |

(1) For personal lines, includes the addition of an automatic facultative facility allowing KICO to obtain homeowners single risk coverage up to \$10,000,000 in total insured value, which covers direct losses from \$3,500,000 to \$10,000,000.

(2) Plus losses in excess of catastrophe coverage.

(3) Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts. Duration of 168 consecutive hours for a catastrophe occurrence from windstorm, hail, tornado, hurricane, and cyclone.

(4) Effective July 1, 2017, reinstatement premium protection for \$145,000,000 of catastrophe coverage in excess of \$5,000,000..

Effective July 1, 2018, reinstatement premium protection for \$210,000,000 of catastrophe coverage in excess of \$5,000,000.



Effective July 1, 2019, reinstatement premium protection for \$292,500,000 of catastrophe coverage in excess of \$7,500,000.

The single maximum risks per occurrence to which the Company is subject under the treaty year shown below is as follows:

| Treaty             | July 1, 2019 - June 30, 2020 |               |
|--------------------|------------------------------|---------------|
|                    | Range of Loss                | Risk Retained |
| Personal Lines (1) | Initial \$1,000,000          | \$1,000,000   |
|                    | \$1,000,000 - \$10,000,000   | None(2)       |
|                    | Over \$10,000,000            | 100%          |
| Personal Umbrella  | Initial \$1,000,000          | \$100,000     |
|                    | \$1,000,000 - \$5,000,000    | None          |
|                    | Over \$5,000,000             | 100%          |
| Commercial Lines   | Initial \$750,000            | \$750,000     |
|                    | \$750,000 - \$4,500,000      | None(3)       |
|                    | Over \$4,500,000             | 100%          |
| Catastrophe (4)    | Initial \$7,500,000          | \$7,500,000   |
|                    | \$7,500,000 - \$610,000,000  | None          |
|                    | Over \$610,000,000           | 100%          |

(1) Personal lines quota share treaty was eliminated effective July 1, 2019. The 2017/2019 Treaty expired on a run-off basis.

(2) Covered by excess of loss treaties up to \$3,500,000 and by facultative facility from \$3,500,000 to \$10,000,000.

(3) Covered by excess of loss treaties.

(4) Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts.

The single maximum risks per occurrence to which the Company is subject under the treaty years shown below are as follows:

| Treaty              | July 1, 2018 - June 30, 2019 |               | July 1, 2017 - June 30, 2018 |               |
|---------------------|------------------------------|---------------|------------------------------|---------------|
|                     | Range of Loss                | Risk Retained | Range of Loss                | Risk Retained |
| Personal Lines (1)  | Initial \$1,000,000          | \$900,000     | Initial \$1,000,000          | \$800,000     |
|                     | \$1,000,000 - \$10,000,000   | None(2)       | \$1,000,000 - \$10,000,000   | None(2)       |
|                     | Over \$10,000,000            | 100%          | Over \$10,000,000            | 100%          |
| Personal Umbrella   | Initial \$1,000,000          | \$100,000     | Initial \$1,000,000          | \$100,000     |
|                     | \$1,000,000 - \$5,000,000    | None          | \$1,000,000 - \$5,000,000    | None          |
|                     | Over \$5,000,000             | 100%          | Over \$5,000,000             | 100%          |
| Commercial Lines    | Initial \$750,000            | \$750,000     | Initial \$750,000            | \$750,000     |
|                     | \$750,000 - \$4,500,000      | None(3)       | \$750,000 - \$4,500,000      | None(3)       |
|                     | Over \$4,500,000             | 100%          | Over \$4,500,000             | 100%          |
| Commercial Umbrella | Initial \$1,000,000          | \$100,000     | Initial \$1,000,000          | \$100,000     |
|                     | \$1,000,000 - \$5,000,000    | None          | \$1,000,000 - \$5,000,000    | None          |
|                     | Over \$5,000,000             | 100%          | Over \$5,000,000             | 100%          |
| Catastrophe (4)     | Initial \$5,000,000          | \$4,500,000   | Initial \$5,000,000          | \$4,000,000   |
|                     | \$5,000,000 - \$450,000,000  | None          | \$5,000,000 - \$320,000,000  | None          |
|                     | Over \$450,000,000           | 100%          | Over \$320,000,000           | 100%          |

(1) Treaty for July 1, 2017 – June 30, 2018 and July 1, 2018 – June 30, 2019 is a two-year treaty with expiration date of June 30, 2019.

(2) Covered by excess of loss treaties up to \$3,500,000 and by facultative facility from \$3,500,000 to \$10,000,000.

(3) Covered by excess of loss treaties.

(4) Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts.

#### 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 resources that is material to investors.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

This item is not applicable to smaller reporting companies.

**Item 4. Controls and Procedures.*****Evaluation of Disclosure Controls and Procedures***

We maintain a system of disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act that are designed to assure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures were: (i) not effective as of September 30, 2019 as a result of the material weakness identified in the quarter in recording, processing, summarizing, and reporting information on a timely basis that we are required to disclose in the reports that we file or submit under the Exchange Act, and (ii) not effective as of September 30, 2019 in ensuring that information that we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this Quarterly Report, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures. Our management concluded that, as of September 30, 2019, our internal control over financial reporting was not effective. Management determined there was ineffective oversight over the process of setting appropriate liability case reserves, which has been assessed as a material weakness. Case reserve estimates are subject to individual judgment, and provide the primary information used as the basis for setting overall reserve levels including a provision for IBNR reserves. Notwithstanding the material weakness, management has concluded that the accompanying condensed consolidated financial statements included in this Form 10-Q fairly present, in all material respects, the financial position, results of operations, and cash flows for the periods presented in accordance with U.S. generally accepted accounting principles.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of an entity's financial statements will not be prevented or detected and corrected on a timely basis.

***Identification of the Material Weakness in Internal Control over Financial Reporting***

During our assessment we determined that the following material weaknesses existed as of September, 30, 2019 in the principles associated with both the control and monitoring activity components of the COSO framework:

The material weakness relates to the ineffective oversight over the establishment of case reserve levels, as discussed above. As of the date of this report, there have been no misstatements identified. Insurance loss reserving is an inherently judgmental process. It is dependent on individual opinions regarding specific information available at a given point in time. Recent reviews of our claims reserving process by multiple parties have led to the additional increase in reserves taken this quarter.

***Remediation Plans***

Our management, with oversight from our Audit Committee, will initiate a plan to remediate the material weakness above. Management will work to ensure that all designed control activities are executed appropriately for the remainder of 2019. Management believes that such activities will allow the Company to select, develop, and perform ongoing and/or separate evaluations to ascertain whether our components of internal control are present and functioning. Because the reliability of the internal control process requires repeatable execution, the material weakness cannot be considered fully remediated until all remedial processes and procedures have been implemented, each applicable control has operated for a sufficient period of time, and management has concluded, through testing, that the controls are operating effectively. Until the material weakness is remediated, we will not be able to assert that our internal controls are effective.

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

There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

On June 12, 2019, Phillip Woolgar filed a suit naming the Company and certain present or former officers and directors as defendants in a putative class action captioned *Woolgar v. Kingstone Companies et al.*, 19 cv 05500 (S.D.N.Y.), asserting claims under Section 10(b) of the Exchange Act and SEC Rule 10b-5 promulgated thereunder and Section 20(a) of the Exchange Act. Plaintiff seeks to represent a class of persons or entities that purchased Kingstone securities between March 14, 2018, and April 29, 2019, and alleges violations of the federal securities law in connection with the Company's April 29, 2019 announcement regarding losses related to winter catastrophe events. The lawsuit alleges that the Company failed to disclose that it did not adequately follow industry best practices related to claims handling and thus did not record sufficient claim reserves, and that as a result, Defendants' positive statements about the Company's business, operations and prospects misled investors. Plaintiff seeks, among other things, an undetermined amount of money damages. We believe the lawsuit to be without merit.

### **Item 1A. Risk Factors.**

There have been no material changes from the risk factors previously disclosed in Part I Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018 except for the following:

***Our failure to implement and maintain adequate internal controls over financial reporting in our business could have a material adverse effect on our business, financial condition, results of operations and stock price.***

"Internal controls over financial reporting" refer to those procedures within a company that are designed to reasonably ensure the accuracy of the company's financial statements. Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to annually assess the effectiveness of our internal controls over financial reporting.

As discussed in Part I, Item 4 of this Form 10-Q, we have determined that, as of September 30, 2019, a material weakness in internal control over financial reporting existed with regard to the process surrounding the establishment of case reserve levels. We will initiate a plan to remedy the material weakness in order that all design control activities are executed appropriately for the remainder of 2019.

If we fail to achieve and maintain adequate internal controls, or if we have material weaknesses in our internal controls, in each case in accordance with applicable standards, we may be unable to conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404. Because effective internal controls are necessary for us to produce reliable financial reports, our business, financial condition and results of operations could be harmed, investors could lose confidence in our reported financial information, and the market price for our stock could decline if our internal controls are ineffective or if material weaknesses in our internal controls are identified.

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

(a) None.

(b) Not applicable.

(c) There were no purchases of common stock made by us or any "affiliated purchaser" during the quarter ended September 30, 2019.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

### **Item 5. Other Information.**

None.

**Item 6. Exhibits.**

- |                       |  |
|-----------------------|--|
| 3(a)                  | Restated Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3(a) to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2014 filed on May 15, 2014).  |
| 3(b)                  | By-laws, as amended (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on November 9, 2009).  |
| 10(a)                 | Agreement and General Release, dated as of July 19, 2019, by and among Kingstone Companies, Inc., Kingstone Insurance Company and Dale A. Thatcher (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 19, 2019). |
| 10(b)                 | Employment Agreement, dated as of August 27, 2019, by and between Kingstone Companies, Inc., and Meryl S. Golden (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on September 17, 2019).                              |
| <a href="#">31(a)</a> | Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| <a href="#">31(b)</a> | Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| <a href="#">32+</a>   | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |

XBRL Instance Document

101.INS

101.SCH 101.SCH XBRL Taxonomy Extension Schema.

101.CAL 101.CAL XBRL Taxonomy Extension Calculation Linkbase.

101.DEF 101.DEF XBRL Taxonomy Extension Definition Linkbase.

101.LAB 101.LAB XBRL Taxonomy Extension Label Linkbase.

101.PRE 101.PRE XBRL Taxonomy Extension Presentation Linkbase.

+ This exhibit will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended.

**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.

**KINGSTONE COMPANIES, INC.**

Date: November 12, 2019

By: /s/ Barry B. Goldstein  
Barry B. Goldstein  
Chief Executive Officer

Date: November 12, 2019

By: /s/ Victor Brodsky  
Victor Brodsky  
Chief Financial Officer

**CERTIFICATION**

I, Barry B. Goldstein, certify that:

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

Date: November 12, 2019

/s/ Barry B. Goldstein  
Barry B. Goldstein  
Chief Executive Officer

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**CERTIFICATION**

I, Victor Brodsky, certify that:

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

Date: November 12, 2019

/s/ Victor Brodsky  
Victor Brodsky  
Chief Financial Officer

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certify, pursuant to, and as required by, 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Kingstone Companies, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 12, 2019

/s/ Barry B. Goldstein  
Barry B. Goldstein  
Chief Executive Officer

/s/ Victor Brodsky  
Victor Brodsky  
Chief Financial Officer

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