

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, 2021

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 type="checkbox"/>
Non-accelerated filer	<input checked="" 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, 2021, there were 10,483,132 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 (“Risk Factors”) of our Annual Report under “Factors That May Affect Future Results and Financial Condition” on Form 10-K for the year ended December 31, 2020 and Part II, Item 1A of this Quarterly Report.

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

	September 30, 2021	December 31, 2020
	(unaudited)	
Assets		
Fixed-maturity securities, held-to-maturity, at amortized cost (fair value of \$9,699,504 at September 30, 2021 and \$8,194,824 at December 31, 2020)	\$ 9,166,983	\$ 7,368,815

Fixed-maturity securities, available-for-sale, at fair value (amortized cost of \$145,435,406 at September 30, 2021 and \$145,045,584 at December 31, 2020)	153,289,242	157,549,272
Equity securities, at fair value (cost of \$37,545,241 at September 30, 2021 and \$32,571,166 at December 31, 2020)	40,060,872	34,413,313
Other investments	7,379,111	3,518,626
Total investments	209,896,208	202,850,026
Cash and cash equivalents	36,108,088	19,463,742
Premiums receivable, net	11,309,319	11,819,639
Reinsurance receivables, net	22,962,014	45,460,729
Deferred policy acquisition costs	21,261,916	20,142,515
Intangible assets	500,000	500,000
Property and equipment, net	8,526,162	8,083,123
Other assets	9,662,834	9,262,493
Total assets	\$ 320,226,541	\$ 317,582,267
Liabilities		
Loss and loss adjustment expense reserves	\$ 101,044,118	\$ 82,801,228
Unearned premiums	92,653,778	90,009,272
Advance premiums	5,325,514	2,660,354
Reinsurance balances payable	4,266,092	6,979,735
Deferred ceding commission revenue	87,846	93,519
Accounts payable, accrued expenses and other liabilities	8,700,342	8,433,233
Deferred income taxes, net	537,848	4,156,913
Long-term debt, net	29,779,746	29,647,611
Total liabilities	242,395,284	224,781,865
Commitments and Contingencies (Note 11)		
Stockholders' Equity		
Preferred stock, \$.01 par value; authorized 2,500,000 shares	-	-
Common stock, \$.01 par value; authorized 20,000,000 shares; issued 11,947,619 shares at September 30, 2021 and 11,871,307 shares at December 31, 2020; outstanding 10,476,213 shares at September 30, 2021 and 10,616,815 shares at December 31, 2020	119,476	118,713
Capital in excess of par	72,025,035	70,769,165
Accumulated other comprehensive income	6,206,680	9,880,062
Retained earnings	5,047,547	15,928,345
	83,398,738	96,696,285
Treasury stock, at cost, 1,471,406 shares at September 30, 2021 and 1,254,492 shares at December 31, 2020	(5,567,481)	(3,895,883)
Total stockholders' equity	77,831,257	92,800,402
Total liabilities and stockholders' equity	\$ 320,226,541	\$ 317,582,267

See accompanying notes to condensed consolidated financial statements.

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KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Revenues				
Net premiums earned	\$ 36,803,251	\$ 27,521,081	\$ 106,828,895	\$ 81,099,387
Ceding commission revenue	(7,276)	3,448,774	37,400	10,760,087
Net investment income	1,676,596	1,494,086	5,137,867	4,771,936
Net gains (losses) on investments	204,534	2,107,876	5,480,202	(1,638,674)
Other income	280,869	250,654	577,261	772,672
Total revenues	38,957,974	34,822,471	118,061,625	95,765,408
Expenses				
Loss and loss adjustment expenses	35,740,235	20,117,975	79,060,117	49,317,427
Commission expense	8,201,935	8,036,298	24,711,115	23,652,765
Other underwriting expenses	6,562,743	6,346,846	19,722,705	19,434,110
Other operating expenses	855,499	1,038,453	3,141,077	3,364,483
Depreciation and amortization	820,091	710,181	2,480,085	2,070,435
Interest expense	456,545	456,545	1,369,635	1,369,635
Total expenses	52,637,048	36,706,298	130,484,734	99,208,855

Loss before taxes	(13,679,074)	(1,883,827)	(12,423,109)	(3,443,447)
Income tax benefit	(3,060,809)	(655,971)	(2,817,108)	(1,379,578)
Net loss	(10,618,265)	(1,227,856)	(9,606,001)	(2,063,869)
Other comprehensive (loss) income, net of tax				
Gross change in unrealized (losses) gains on available-for-sale-securities	(829,297)	1,778,478	(3,578,413)	5,938,600
Reclassification adjustment for gains included in net loss	(335,669)	(606,969)	(1,071,439)	(560,696)
Net change in unrealized (losses) gains	(1,164,966)	1,171,509	(4,649,852)	5,377,904
Income tax benefit (expense) related to items of other comprehensive (loss) income	244,643	(246,017)	976,470	(1,129,359)
Other comprehensive (loss) income, net of tax	(920,323)	925,492	(3,673,382)	4,248,545
Comprehensive (loss) income	\$ (11,538,588)	\$ (302,364)	\$ (13,279,383)	\$ 2,184,676
Loss per common share:				
Basic	\$ (1.01)	\$ (0.12)	\$ (0.90)	\$ (0.19)
Diluted	\$ (1.01)	\$ (0.12)	\$ (0.90)	\$ (0.19)
Weighted average common shares outstanding				
Basic	10,523,515	10,673,077	10,622,988	10,737,853
Diluted	10,523,515	10,673,077	10,622,988	10,737,853
Dividends declared and paid per common share	\$ 0.0400	\$ 0.0400	\$ 0.1200	\$ 0.1425

See accompanying notes to condensed consolidated financial statements.

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KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

Three months ended
September 30, 2021
and 2020

	Preferred Stock		Common Stock		Capital in Excess of Par	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock		Total
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance, July 1, 2020	-	\$ -	11,866,254	\$ 118,662	\$ 69,951,549	\$ 8,091,923	\$ 14,973,684	1,196,109	\$ (3,514,340)	89,621,478
Stock-based compensation	-	-	-	-	430,896	-	-	-	-	430,896
Vesting of restricted stock awards	-	-	6,790	69	(69)	-	-	-	-	-
Shares deducted from restricted stock awards for payment of withholding taxes	-	-	(1,737)	(18)	(9,577)	-	-	-	-	(9,595)
Acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	(426,990)	-	-	(426,990)
Net loss	-	-	-	-	-	-	(1,227,856)	-	-	(1,227,856)
Change in unrealized gains on available-for-sale securities, net of tax	-	-	-	-	-	925,492	-	-	-	925,492

Balance, September 30, 2020	-	\$ -	11,871,307	\$ 118,713	\$ 70,372,799	\$ 9,017,415	\$ 13,318,838	1,196,109	\$(3,514,340)	\$ 89,313,425
	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Capital in Excess of Par</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>		<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>				<u>Shares</u>	<u>Amount</u>	
Balance, July 1, 2021	-	\$ -	11,944,220	\$ 119,442	\$ 71,567,797	\$ 7,127,003	\$ 16,086,337	1,383,077	\$(4,935,933)	\$ 89,964,646
Stock-based compensation	-	-	-	-	466,658	-	-	-	-	466,658
Vesting of restricted stock awards	-	-	4,907	49	(49)	-	-	-	-	-
Shares deducted from restricted stock awards for payment of withholding taxes	-	-	(1,508)	(15)	(9,371)	-	-	-	-	(9,386)
Acquisition of treasury stock	-	-	-	-	-	-	-	88,329	(631,548)	(631,548)
Dividends	-	-	-	-	-	-	(420,525)	-	-	(420,525)
Net loss	-	-	-	-	-	-	(10,618,265)	-	-	(10,618,265)
Change in unrealized losses on available-for-sale securities, net of tax	-	-	-	-	-	(920,323)	-	-	-	(920,323)
Balance, September 30, 2021	-	\$ -	11,947,619	\$ 119,476	\$ 72,025,035	\$ 6,206,680	\$ 5,047,547	1,471,406	\$(5,567,481)	\$ 77,831,257

See accompanying notes to condensed consolidated financial statements.

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KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

Nine months ended
September 30, 2021
and 2020

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Capital in Excess of Par</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>		<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>				<u>Shares</u>	<u>Amount</u>	
Balance, January 1, 2020	-	\$ -	11,824,889	\$ 118,248	\$ 69,133,918	\$ 4,768,870	\$ 16,913,097	1,027,439	\$(2,712,552)	88,221,581
Stock-based compensation	-	-	-	-	1,373,283	-	-	-	-	1,373,283
Vesting of restricted stock awards	-	-	67,686	676	(676)	-	-	-	-	-
Shares deducted from restricted stock awards for payment of withholding taxes	-	-	(21,268)	(211)	(133,726)	-	-	-	-	(133,937)
Acquisition of treasury stock	-	-	-	-	-	-	-	168,670	(801,788)	(801,788)
Dividends	-	-	-	-	-	-	(1,530,390)	-	-	(1,530,390)
Net loss	-	-	-	-	-	-	(2,063,869)	-	-	(2,063,869)

	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	
Change in unrealized gains on available-for-sale securities, net of tax	-	-	-	-	-	4,248,545	-	-	-	4,248,545
Balance, September 30, 2020	-	\$ -	11,871,307	\$ 118,713	\$ 70,372,799	\$ 9,017,415	\$ 13,318,838	1,196,109	\$ (3,514,340)	\$ 89,313,425
Balance, January 1, 2021	-	\$ -	11,871,307	\$ 118,713	\$ 70,769,165	\$ 9,880,062	\$ 15,928,345	1,254,492	\$ (3,895,883)	\$ 92,800,402
Stock-based compensation	-	-	-	-	1,447,725	-	-	-	-	1,447,725
Vesting of restricted stock awards	-	-	104,030	1,040	(1,040)	-	-	-	-	-
Shares deducted from restricted stock awards for payment of withholding taxes	-	-	(27,718)	(277)	(190,815)	-	-	-	-	(191,092)
Acquisition of treasury stock	-	-	-	-	-	-	-	216,914	(1,671,598)	(1,671,598)
Dividends	-	-	-	-	-	-	(1,274,797)	-	-	(1,274,797)
Net loss	-	-	-	-	-	-	(9,606,001)	-	-	(9,606,001)
Change in unrealized losses on available-for-sale securities, net of tax	-	-	-	-	-	(3,673,382)	-	-	-	(3,673,382)
Balance, September 30, 2021	-	\$ -	11,947,619	\$ 119,476	\$ 72,025,035	\$ 6,206,680	\$ 5,047,547	1,471,406	\$ (5,567,481)	\$ 77,831,257

See accompanying notes to condensed consolidated financial statements.

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KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

Nine months ended September 30,

	2021	2020
Cash flows from operating activities:		
Net loss	\$ (9,606,001)	\$ (2,063,869)
Adjustments to reconcile net loss to net cash flows provided by (used in) operating activities:		
Net gains on sale of investments	(2,793,522)	(857,650)
Net unrealized gains on equity investments	(592,397)	2,740,489
Net unrealized gains of other investments	(2,094,283)	(244,165)
Depreciation and amortization	2,480,085	2,070,435
Bad debt expense	150,024	70,666
Amortization of bond premium, net	165,413	518,146
Amortization of discount and issuance costs on long-term debt	132,135	132,135
Stock-based compensation	1,447,725	1,373,283
Deferred income tax (benefit) expense	(2,642,595)	1,154,475
(Increase) decrease in operating assets:		
Premiums receivable, net	360,296	(1,247,963)
Reinsurance receivables, net	22,498,715	(14,778,870)

Deferred policy acquisition costs	(1,119,401)	718,053
Other assets	(406,756)	(2,010,253)
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	18,242,890	4,480,413
Unearned premiums	2,644,506	(2,215,602)
Advance premiums	2,665,160	1,727,744
Reinsurance balances payable	(2,713,643)	(1,652,075)
Deferred ceding commission revenue	(5,673)	(528,256)
Accounts payable, accrued expenses and other liabilities	267,109	1,147,858
Net cash flows provided by (used in) operating activities	29,079,787	(9,465,006)
Cash flows from investing activities:		
Purchase - fixed-maturity securities held-to-maturity	(3,175,686)	(4,041,750)
Purchase - fixed-maturity securities available-for-sale	(32,753,786)	(12,447,259)
Purchase - equity securities	(17,834,076)	(15,614,675)
Purchase - other investments	(2,000,000)	-
Redemption - fixed-maturity securities held-to-maturity	1,312,500	500,000
Sale or maturity - fixed-maturity securities available-for-sale	33,335,036	29,666,158
Sale - equity securities	14,507,384	8,103,697
Sale - real estate partnership	233,798	-
Acquisition of property and equipment	(2,923,124)	(2,238,432)
Net cash flows (used in) provided by investing activities	(9,297,954)	3,927,739
Cash flows from financing activities:		
Withholding taxes paid on vested restricted stock awards	(191,092)	(133,937)
Purchase of treasury stock	(1,671,598)	(801,788)
Dividends paid	(1,274,797)	(1,530,390)
Net cash flows used in financing activities	(3,137,487)	(2,466,115)
Increase (decrease) in cash and cash equivalents	\$ 16,644,346	\$ (8,003,382)
Cash and cash equivalents, beginning of period	19,463,742	32,391,485
Cash and cash equivalents, end of period	\$ 36,108,088	\$ 24,388,103
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	\$ -	\$ 388,000
Cash paid for interest	\$ 825,000	\$ 825,000

See accompanying notes to condensed consolidated financial statements.

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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 exclusively through retail and wholesale 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, 79.4% and 77.5% of KICO's direct written premiums for the three months and nine months ended September 30, 2021, respectively, came from the New York policies. Kingstone, through its wholly owned 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.

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, 2020 and notes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 31, 2021. 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 presentation of the Company's financial position and results of operations. The results of operations for the nine months ended September 30, 2021 may not be indicative of the results that may be expected for the year ending December 31, 2021.

Certain prior year balances were reclassified to conform with the current year presentation.

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 ongoing 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.

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Principles of Consolidation

The accompanying condensed consolidated financial statements consist of Kingstone and its following wholly owned subsidiaries: (1) 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, and (2) Cosi. All significant intercompany account balances and transactions have been eliminated in consolidation.

Accounting Changes

In December 2019, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2019-12, Income Taxes - Simplifying the Accounting for Income Taxes (“ASU 2019-12”). Among other items, the amendments in ASU 2019-12 simplify the accounting treatment of tax law changes and year-to-date losses in interim periods. An entity generally recognizes the effects of a change in tax law in the period of enactment; however, there is an exception for tax laws with delayed effective dates. Under current guidance, an entity may not adjust its annual effective tax rate for a tax law change until the period in which the law is effective. This exception was removed under ASU 2019-12, thereby providing that all effects of a tax law change are recognized in the period of enactment, including adjustment of the estimated annual effective tax rate. Regarding year-to-date losses in interim periods, an entity is required to estimate its annual effective tax rate for the full fiscal year at the end of each interim period and use that rate to calculate its income taxes on a year-to-date basis. However, current guidance provides an exception that when a loss in an interim period exceeds the anticipated loss for the year, the income tax benefit is limited to the amount that would be recognized if the year-to-date loss were the anticipated loss for the full year. ASU 2019-12 removes this exception and provides that, in this situation, an entity would compute its income tax benefit at each interim period based on its estimated annual effective tax rate. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, including interim periods within those annual periods. The Company adopted this ASU as of January 1, 2021, and it did not have a material impact on the Company's condensed consolidated financial statements.

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, 2023. The Company is currently evaluating the effect the updated guidance will have on its condensed consolidated financial statements.

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.

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Note 3 - Investments

Fixed-Maturity Securities

The amortized cost, estimated fair value, and unrealized gains and losses on investments in fixed-maturity securities classified as available-for-sale as of September 30, 2021 and December 31, 2020 are summarized as follows:

Category	September 30, 2021					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	Net Unrealized Gains
			Less than 12 Months	More than 12 Months		
Fixed-Maturity Securities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 2,002,935	\$ 3,945	\$ -	\$ -	\$ 2,006,880	\$ 3,945

Political subdivisions of States,

Territories and Possessions	14,384,428	259,721	(89,844)	-	14,554,305	169,877
Corporate and other bonds						
Industrial and miscellaneous	88,059,505	7,391,053	(27,577)	-	95,422,981	7,363,476
Residential mortgage and other asset backed securities	40,988,538	561,035	(243,639)	(858)	41,305,076	316,538
Total	<u>\$ 145,435,406</u>	<u>\$ 8,215,754</u>	<u>\$ (361,060)</u>	<u>\$ (858)</u>	<u>\$ 153,289,242</u>	<u>\$ 7,853,836</u>

December 31, 2020

Category	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	Net Unrealized Gains
			Less than 12 Months	More than 12 Months		
Fixed-Maturity Securities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 3,020,710	\$ 29,190	\$ -	\$ -	\$ 3,049,900	\$ 29,190
Political subdivisions of States, Territories and Possessions	5,287,561	355,541	-	-	\$ 5,643,102	355,541
Corporate and other bonds						
Industrial and miscellaneous	108,573,422	11,634,123	(13,216)	-	\$ 120,194,329	11,620,907
Residential mortgage and other asset backed securities (1)	28,163,891	617,368	(7,371)	(111,947)	\$ 28,661,941	498,050
Total	<u>\$ 145,045,584</u>	<u>\$ 12,636,222</u>	<u>\$ (20,587)</u>	<u>\$ (111,947)</u>	<u>\$ 157,549,272</u>	<u>\$ 12,503,688</u>

(1) 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, 2021 KICO did not have any securities pledged as collateral. As of December 31, 2020, the estimated fair value of the eligible investments was approximately \$11,391,000. KICO will retain all rights regarding all securities if pledged as collateral. As of December 31, 2020, there was no outstanding balance on the FHLBNY credit line.

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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, 2021 and December 31, 2020 is shown below:

Remaining Time to Maturity	September 30, 2021		December 31, 2020	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Less than one year	\$ 4,161,386	\$ 4,184,568	\$ 8,559,005	\$ 8,668,064
One to five years	40,877,043	43,947,314	44,137,567	47,745,430
Five to ten years	42,375,537	46,545,324	55,508,712	63,159,775
More than 10 years	17,032,902	17,306,960	8,676,409	9,314,062
Residential mortgage and other asset backed securities	40,988,538	41,305,076	28,163,891	28,661,941
Total	<u>\$ 145,435,406</u>	<u>\$ 153,289,242</u>	<u>\$ 145,045,584</u>	<u>\$ 157,549,272</u>

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 and estimated fair value of, and gross unrealized gains and losses on, investments in equity securities as of September 30, 2021 and December 31, 2020 are as follows:

Category	September 30, 2021			Estimated Fair Value
	Cost	Gross Gains	Gross Losses	
Equity Securities:				
Preferred stocks	\$ 21,934,910	\$ 1,123,310	\$ (157,431)	\$ 22,900,789
Common stocks and exchange traded funds	15,610,331	1,620,343	(70,591)	17,160,083
Total	<u>\$ 37,545,241</u>	<u>\$ 2,743,653</u>	<u>\$ (228,022)</u>	<u>\$ 40,060,872</u>
		December 31, 2020		
		Gross	Gross	Estimated

Category	Cost	Gains	Losses	Fair Value
Equity Securities:				
Preferred stocks	\$ 18,097,942	\$ 853,277	\$ (426,942)	\$ 18,524,277
Common stocks and exchange traded funds	14,473,224	1,820,512	(404,700)	15,889,036
Total	<u>\$ 32,571,166</u>	<u>\$ 2,673,789</u>	<u>\$ (831,642)</u>	<u>\$ 34,413,313</u>

Other Investments

The cost and estimated fair value of, and gross gains on, the Company's other investments as of September 30, 2021 and December 31, 2020 are as follows:

Category	September 30, 2021			December 31, 2020		
	Cost	Gross Gains	Estimated Fair Value	Cost	Gross Gains	Estimated Fair Value
Other Investments:						
Hedge fund	\$ 3,999,381	\$ 3,379,730	\$ 7,379,111	\$ 1,999,381	\$ 1,369,245	\$ 3,368,626
Real estate limited partnership	-	-	-	150,000	-	150,000
Total	<u>\$ 3,999,381</u>	<u>\$ 3,379,730</u>	<u>\$ 7,379,111</u>	<u>\$ 2,149,381</u>	<u>\$ 1,369,245</u>	<u>\$ 3,518,626</u>

Held-to-Maturity Securities

The cost or amortized cost and estimated fair value of, and unrealized gross gains and losses on, investments in held-to-maturity fixed-maturity securities as of September 30, 2021 and December 31, 2020 are summarized as follows:

Category	September 30, 2021					
	Cost or	Gross	Gross Unrealized Losses		Estimated	Net
	Amortized Cost	Unrealized Gains	Less than 12 Months	More than 12 Months	Fair Value	Unrealized Gains
Held-to-Maturity Securities:						
U.S. Treasury securities	\$ 729,630	\$ 210,466	\$ -	\$ -	\$ 940,096	\$ 210,466
Political subdivisions of States, Territories and Possessions	998,296	29,744	-	-	1,028,040	29,744
Exchange traded debt	304,111	-	(16,611)		287,500	(16,611)
Corporate and other bonds Industrial and miscellaneous	7,134,946	315,285	(6,363)	-	7,443,868	308,922
Total	<u>\$ 9,166,983</u>	<u>\$ 555,495</u>	<u>\$ (22,974)</u>	<u>\$ -</u>	<u>\$ 9,699,504</u>	<u>\$ 532,521</u>

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Category	December 31, 2020					
	Cost or	Gross	Gross Unrealized Losses		Estimated	Net
	Amortized Cost	Unrealized Gains	Less than 12 Months	More than 12 Months	Fair Value	Unrealized Gains
Held-to-Maturity Securities:						
U.S. Treasury securities	\$ 729,595	\$ 319,714	\$ -	\$ -	\$ 1,049,309	\$ 319,714
Political subdivisions of States, Territories and Possessions	998,428	50,917	-	-	1,049,345	50,917
Corporate and other bonds Industrial and miscellaneous	5,640,792	455,378	-	-	6,096,170	455,378
Total	<u>\$ 7,368,815</u>	<u>\$ 826,009</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,194,824</u>	<u>\$ 826,009</u>

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, 2021 and December 31, 2020 is shown below:

September 30, 2021

December 31, 2020

<u>Remaining Time to Maturity</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Less than one year	\$ 1,394,102	\$ 1,420,414	\$ -	\$ -
One to five years	1,205,500	1,301,973	2,598,193	2,777,936
Five to ten years	1,511,072	1,686,289	1,502,603	1,727,316
More than 10 years	5,056,309	5,290,828	3,268,019	3,689,572
Total	<u>\$ 9,166,983</u>	<u>\$ 9,699,504</u>	<u>\$ 7,368,815</u>	<u>\$ 8,194,824</u>

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

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Investment Income

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

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Income:				
Fixed-maturity securities	\$ 1,288,277	\$ 1,264,633	\$ 4,238,746	\$ 4,106,404
Equity securities	436,833	290,834	1,145,244	787,702
Cash and cash equivalents	9,636	1,834	11,194	89,993
Other investments	42,908	-	-	-
Total	<u>1,777,654</u>	<u>1,557,301</u>	<u>5,395,184</u>	<u>4,984,099</u>
Expenses:				
Investment expenses	101,058	63,215	257,317	212,163
Net investment income	<u>\$ 1,676,596</u>	<u>\$ 1,494,086</u>	<u>\$ 5,137,867</u>	<u>\$ 4,771,936</u>

Proceeds from the redemption of fixed-maturity securities held-to-maturity were \$1,312,500 for the nine months ended September 30, 2021 and \$500,000 for the nine months ended September 30, 2020.

Proceeds from the sale or maturity of fixed-maturity securities available-for-sale were \$33,335,036 and \$29,666,158 for the nine months ended September 30, 2021 and 2020, respectively.

Proceeds from the sale of equity securities were \$14,507,384 and \$8,103,697 for the nine months ended September 30, 2021 and 2020, respectively.

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

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Realized Gains (Losses)				
Fixed-maturity securities:				
Gross realized gains	\$ 343,773	\$ 714,162	\$ 1,121,068	\$ 864,814
Gross realized losses	(8,103)	(107,193)	(49,601)	(304,118)
	<u>335,670</u>	<u>606,969</u>	<u>1,071,467</u>	<u>560,696</u>
Equity securities:				
Gross realized gains	639,626	199,439	2,015,574	644,111
Gross realized losses	(26,031)	(209,069)	(293,519)	(449,916)
	<u>613,595</u>	<u>(9,630)</u>	<u>1,722,055</u>	<u>194,195</u>
Other investments:				
Gross realized gains	83,798	-	83,798	-
Gross realized losses	-	-	-	-
	<u>83,798</u>	<u>-</u>	<u>83,798</u>	<u>-</u>
Net realized gains	<u>1,033,063</u>	<u>597,339</u>	<u>2,877,320</u>	<u>754,891</u>
Unrealized Gains (Losses)				
Equity securities:				
Gross gains	(1,331,675)	1,223,779	592,397	-

Gross losses			-	(2,637,730)
	(1,331,675)	1,223,779	592,397	(2,637,730)
Other investments:				
Gross gains	503,146	286,758	2,010,485	244,165
Gross losses	-	-	-	-
	503,146	286,758	2,010,485	244,165
Net unrealized gains (losses)	(828,529)	1,510,537	2,602,882	(2,393,565)
Net gains (losses) on investments	\$ 204,534	\$ 2,107,876	\$ 5,480,202	\$ (1,638,674)

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 based on cash flow projections. For held-to-maturity fixed-maturity securities, the amount of OTTI recorded in comprehensive income (loss) for the noncredit portion of a previous OTTI is amortized prospectively over the remaining life of the security based on timing of future estimated cash flows of the security.

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OTTI losses are recorded in the 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, 2021 and December 31, 2020, there were 25 and 16 fixed-maturity securities, respectively, that accounted for the gross unrealized losses. 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, 2021 and 2020. 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 hold 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, 2021 as follows:

Category	September 30, 2021								
	Less than 12 months			12 months or more			Total		
	Estimated Fair Value	Unrealized Losses	No. of Positions Held	Estimated Fair Value	Unrealized Losses	No. of Positions Held	Estimated Fair Value	Unrealized Losses	
Fixed-Maturity Securities:									
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ -	\$ -	-	\$ -	\$ -	-	\$ -	\$ -	
Political subdivisions of States, Territories and Possessions	9,106,494	(89,844)	6	-	-	-	9,106,494	(89,844)	
Corporate and other bonds industrial and miscellaneous	1,071,100	(27,577)	1	-	-	-	1,071,100	(27,577)	
Residential mortgage and other asset backed securities	27,039,698	(243,639)	17	12,436	(858)	1	27,052,134	(244,497)	
Total fixed-maturity securities	\$37,217,292	\$ (361,060)	24	\$ 12,436	\$ (858)	1	\$37,229,728	\$ (361,918)	

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The Company held available-for-sale securities with unrealized losses representing declines that were considered temporary at December 31, 2020 as follows:

Category	December 31, 2020							
	Less than 12 months			12 months or more			Total	
	Estimated Fair Value	Unrealized Losses	No. of Positions Held	Estimated Fair Value	Unrealized Losses	No. of Positions Held	Estimated Fair Value	Unrealized Losses
Fixed-Maturity Securities:								
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ -	\$ -	-	\$ -	\$ -	-	\$ -	\$ -
Political subdivisions of States, Territories and Possessions	-	-	-	-	-	-	-	-
Corporate and other bonds industrial and miscellaneous	1,006,901	(13,216)	1	-	-	-	1,006,901	(13,216)
Residential mortgage and other asset backed securities	6,137,522	(7,371)	5	3,735,732	(111,947)	10	9,873,254	(119,318)
Total fixed-maturity securities	\$7,144,423	\$ (20,587)	6	\$3,735,732	\$ (111,947)	10	\$10,880,155	\$ (132,534)

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Note 4 - Fair Value Measurements

The following table presents information about the Company's investments that are measured at fair value on a recurring basis at September 30, 2021 and December 31, 2020 indicating the fair value hierarchy of the valuation inputs the Company utilized to determine such fair value:

	September 30, 2021			
	Level 1	Level 2	Level 3	Total
Fixed-maturity securities available-for-sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 2,006,880	\$ -	\$ -	\$ 2,006,880
Political subdivisions of States, Territories and Possessions	-	14,554,305	-	14,554,305
Corporate and other bonds industrial and miscellaneous	94,403,401	1,019,580	-	95,422,981
Residential mortgage backed securities	-	41,305,076	-	41,305,076
Total fixed maturities	96,410,281	56,878,961	-	153,289,242
Equity securities	40,060,872	-	-	40,060,872
Total investments	\$ 136,471,153	\$ 56,878,961	\$ -	\$ 193,350,114

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Fixed-maturity securities available-for-sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 3,049,900	\$ -	\$ -	\$ 3,049,900
Political subdivisions of States, Territories and Possessions	-	5,643,102	-	5,643,102
Corporate and other bonds industrial and miscellaneous	118,123,890	2,070,439	-	120,194,329

Residential mortgage and other asset backed securities	-	28,661,941	-	28,661,941
Total fixed maturities	121,173,790	36,375,482	-	157,549,272
Equity securities	34,413,313	-	-	34,413,313
Total investments	<u>\$ 155,587,103</u>	<u>\$ 36,375,482</u>	<u>\$ -</u>	<u>\$ 191,962,585</u>

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The following table sets forth the Company's investment in a hedge fund and real estate limited partnership both measured at Net Asset Value ("NAV") per share as of September 30, 2021 and December 31, 2020. The Company measures these investments at fair value on a recurring basis. Fair value using NAV per share is as follows as of the dates indicated:

Category	September 30, 2021	December 31, 2020
Other Investments:		
Hedge fund	\$ 7,379,111	\$ 3,368,626
Real estate limited partnership	-	150,000
Total	<u>\$ 7,379,111</u>	<u>\$ 3,518,626</u>

The hedge fund 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, 2021 and December 31, 2020 not measured at fair value is as follows:

	September 30, 2021			
	Level 1	Level 2	Level 3	Total
Long-term debt				
Senior Notes due 2022	\$ -	\$ 27,296,810	\$ -	\$ 27,296,810
	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Long-term debt				
Senior Notes due 2022	\$ -	\$ 27,272,727	\$ -	\$ 27,272,727

Note 5 - Fair Value of Financial Instruments and Real Estate

The estimated fair values of the Company's financial instruments and real estate as of September 30, 2021 and December 31, 2020 are as follows:

	September 30, 2021		December 31, 2020	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Fixed-maturity securities-held-to maturity	\$ 9,166,983	\$ 9,699,504	\$ 7,368,815	\$ 8,194,824
Cash and cash equivalents	\$ 36,108,088	\$ 36,108,088	\$ 19,463,742	\$ 19,463,742
Premiums receivable, net	\$ 11,309,319	\$ 11,309,319	\$ 11,819,639	\$ 11,819,639
Reinsurance receivables, net	\$ 22,962,014	\$ 22,962,014	\$ 45,460,729	\$ 45,460,729
Real estate, net of accumulated depreciation	\$ 2,162,899	\$ 3,025,000	\$ 2,219,999	\$ 2,705,000
Reinsurance balances payable	\$ 4,266,092	\$ 4,266,092	\$ 6,979,735	\$ 6,979,735

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Note 6 – Property and Casualty Insurance Activity

Premiums Earned

Premiums written, ceded and earned are as follows:

	Direct	Assumed	Ceded	Net
Nine months ended September 30, 2021				
Premiums written	\$ 131,609,930	\$ -	\$ (21,854,398)	\$ 109,755,532
Change in unearned premiums	(2,911,439)	-	(15,198)	(2,926,637)
Premiums earned	<u>\$ 128,698,491</u>	<u>\$ -</u>	<u>\$ (21,869,596)</u>	<u>\$ 106,828,895</u>

Nine months ended September 30, 2020				
Premiums written	\$ 125,089,571	\$ -	\$ (43,813,468)	\$ 81,276,103
Change in unearned premiums	2,215,602	-	(2,392,318)	(176,716)
Premiums earned	<u>\$ 127,305,173</u>	<u>\$ -</u>	<u>\$ (46,205,786)</u>	<u>\$ 81,099,387</u>
Three months ended September 30, 2021				
Premiums written	\$ 48,865,169	\$ -	\$ (7,223,526)	\$ 41,641,643
Change in unearned premiums	(4,848,145)	-	9,753	(4,838,392)
Premiums earned	<u>\$ 44,017,024</u>	<u>\$ -</u>	<u>\$ (7,213,773)</u>	<u>\$ 36,803,251</u>
Three months ended September 30, 2020				
Premiums written	\$ 45,742,165	\$ -	\$ (15,747,215)	\$ 29,994,950
Change in unearned premiums	(3,161,356)	-	687,487	(2,473,869)
Premiums earned	<u>\$ 42,580,809</u>	<u>\$ -</u>	<u>\$ (15,059,728)</u>	<u>\$ 27,521,081</u>

Premium receipts in advance of the policy effective date are recorded as advance premiums. The balance of advance premiums as of September 30, 2021 and December 31, 2020 was \$5,325,514 and \$2,660,354, 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:

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	Nine months ended September 30, 2021	
	<u>2021</u>	<u>2020</u>
Balance at beginning of period	\$ 82,801,228	\$ 80,498,611
Less reinsurance recoverables	(20,154,251)	(15,728,224)
Net balance, beginning of period	<u>62,646,977</u>	<u>64,770,387</u>
Incurred related to:		
Current year	79,070,646	49,597,154
Prior years	(10,529)	(279,727)
Total incurred	<u>79,060,117</u>	<u>49,317,427</u>
Paid related to:		
Current year	35,408,412	29,845,049
Prior years	17,586,958	24,068,492
Total paid	<u>52,995,370</u>	<u>53,913,541</u>
Net balance at end of period	88,711,724	60,174,273
Add reinsurance recoverables	12,332,394	24,804,751
Balance at end of period	<u>\$ 101,044,118</u>	<u>\$ 84,979,024</u>

Incurred losses and LAE are net of reinsurance recoveries under reinsurance contracts of \$1,220,970 and \$23,826,986 for the nine months ended September 30, 2021 and 2020, 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, 2021 and 2020 was \$10,529 favorable and \$279,727 favorable, respectively. Management periodically performs a review of open liability claims to assess carried case and incurred but not reported (“IBNR”) reserve levels, giving consideration to both Company and industry trends.

Loss and LAE reserves

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.

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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.

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Three 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, the loss development factor selections used in the loss development methods, and the loss severity assumptions used in the frequency / severity method 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 severity assumptions used in the frequency / severity method are determined by reviewing historical average claim severity for older more mature accident periods, trended forward to less mature accident periods.

COVID-19 has introduced additional uncertainty to recent claim trends. The Company reviews the carried reserves levels at a regular basis as additional information becomes available and makes adjustments in the periods in which such adjustments are determined to be necessary. The Company is not aware of any other 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, 2018 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, 2021, net of reinsurance, as well as the cumulative reported claims by accident year and total IBNR reserves as of September 30, 2021 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, 2012 to December 31, 2020 is presented as supplementary unaudited information.

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

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance									As of		Cumulative Number of Reported Claims by Accident Year
	For the Years Ended December 31,									September 30, 2021		
	2012	2013	2014	2015	2016	2017	2018	2019	2020	Nine months ended September 30, 2021	IBNR	
	(Unaudited 2012 - 2020)									(Unaudited)		
2012	\$ 9,539	\$ 9,344	\$ 10,278	\$ 10,382	\$ 10,582	\$ 10,790	\$ 10,791	\$ 11,015	\$ 10,885	\$ 10,881	\$ 11	4,704(1)
2013		10,728	9,745	9,424	9,621	10,061	10,089	10,607	10,495	10,498	19	1,564
2014			14,193	14,260	14,218	14,564	15,023	16,381	16,428	16,420	141	2,138
2015				22,340	21,994	22,148	22,491	23,386	23,291	23,466	123	2,558
2016					26,062	24,941	24,789	27,887	27,966	27,520	391	2,880
2017						31,605	32,169	35,304	36,160	36,337	370	3,393
2018							54,455	56,351	58,441	59,289	1,174	4,221
2019								75,092	72,368	71,837	7,377	4,471
2020									63,083	62,858	6,644	5,822
2021										74,958	18,813	4,378
									Total	\$ 394,064		

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

All Lines of Business
(in thousands)

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance									Nine months ended September 30, 2021
	For the Years Ended December 31,									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	
	(Unaudited 2012 - 2020)									(Unaudited)
2012	\$ 3,950	\$ 5,770	\$ 7,127	\$ 8,196	\$ 9,187	\$ 10,236	\$ 10,323	\$ 10,428	\$ 10,451	\$ 10,544
2013		3,405	5,303	6,633	7,591	8,407	9,056	9,717	10,016	10,140
2014			5,710	9,429	10,738	11,770	13,819	14,901	15,491	15,706
2015				12,295	16,181	18,266	19,984	21,067	22,104	22,285
2016					15,364	19,001	21,106	23,974	25,234	25,639
2017						16,704	24,820	28,693	31,393	32,161
2018							32,383	44,516	50,553	51,676
2019								40,933	54,897	57,594
2020									39,045	49,945
2021										33,309
									Total	\$ 308,999
	Net liability for unpaid loss and allocated loss adjustment expenses for the accident years presented									\$ 85,065
	All outstanding liabilities before 2011, net of reinsurance									110
	Liabilities for loss and allocated loss adjustment expenses, net of reinsurance									<u>\$ 85,175</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.

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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, 2021
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance	\$ 85,175
Total reinsurance recoverable on unpaid losses	12,332
Unallocated loss adjustment expenses	3,537
Total gross liability for loss and LAE reserves	<u>\$ 101,044</u>

Reinsurance

Effective December 15, 2019, the Company entered into a quota share reinsurance treaty for its personal lines business, which primarily consisted of homeowners' policies, covering the period from December 15, 2019 through December 30, 2020 ("2019/2020 Treaty"). Effective December 31, 2020, the 2019/2020 Treaty expired on a cut off basis; this treaty was not renewed. The Company entered into new excess of loss and catastrophe reinsurance treaties effective July 1, 2021. Effective October 18, 2021, the Company entered into a stub catastrophe reinsurance treaty covering the period from October 18,

2021 through December 31, 2021. The treaty provides reinsurance coverage for catastrophe losses of \$5,000,000 in excess of \$5,000,000. Losses from freeze are excluded from the treaty. Material terms for reinsurance treaties in effect for the treaty years shown below are as follows:

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Line of Business	Treaty Year December 15, 2019 to December 30, 2020
Personal Lines: Homeowners, dwelling fire and and canine legal liability Quota share treaty: Percent ceded	25%

Line of Business	Treaty Year			
	July 1, 2021 to June 30, 2022	December 31, 2020 to June 30, 2021	July 1, 2020 to December 30, 2020	December 15, 2019 to June 30, 2020
Personal Lines: Homeowners, dwelling fire and and canine legal liability Quota share treaty: Risk retained on initial \$1,000,000 of losses (7)	\$ 1,000,000	\$ 1,000,000	\$ 750,000	\$ 750,000
Losses per occurrence subject to quota share reinsurance coverage	None (7)	None (7)	\$ 1,000,000	\$ 1,000,000
Expiration date	NA (7)	NA (7)	December 30, 2020	December 30, 2020
Excess of loss coverage and facultative facility coverage (1)	\$ 8,000,000 in excess of \$ 1,000,000	\$ 8,000,000 in excess of \$ 1,000,000	\$ 8,000,000 in excess of \$ 1,000,000	\$ 9,000,000 in excess of \$ 1,000,000
Total reinsurance coverage per occurrence (7)	\$ 8,000,000	\$ 8,000,000	\$ 8,250,000	\$ 9,250,000
Losses per occurrence subject to reinsurance coverage	\$ 9,000,000	\$ 9,000,000	\$ 9,000,000	\$ 10,000,000
Expiration date (7)	June 30, 2022	June 30, 2021	June 30, 2021	June 30, 2020
Catastrophe Reinsurance: Initial loss subject to personal lines quota share treaty	None (7)	None (7)	\$ 7,500,000	\$ 7,500,000
Risk retained per catastrophe occurrence (2) (7)	\$ 10,000,000	\$ 10,000,000	\$ 8,125,000	\$ 5,625,000
Catastrophe loss coverage in excess of quota share coverage (3) (7)	\$ 490,000,000	\$ 475,000,000	\$ 475,000,000	\$ 602,500,000
Catastrophe stub coverage for the period from October 18, 2021 through December 31, 2021 (8)	\$ 5,000,000 in excess of \$ 5,000,000	NA	NA	NA
Reinstatement premium protection (4) (5) (6)	Yes	Yes	Yes	Yes

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- (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 through June 30, 2020. For the period July 1, 2020 through June 30, 2022, direct losses are covered up to \$9,000,000.
- (2) Plus losses in excess of catastrophe coverage. For the period July 1, 2020 through December 30, 2020, there was no reinsurance coverage for the \$2,500,000 gap between quota share limit of \$7,500,000 and first \$10,000,000 layer of catastrophe coverage (see note (7) below).
- (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) For the period July 1, 2019 through June 30, 2020, reinstatement premium protection for \$292,500,000 of catastrophe coverage in excess of \$7,500,000.
- (5) For the period July 1, 2020 through June 30, 2021, reinstatement premium protection for \$70,000,000 of catastrophe coverage in excess of \$10,000,000.
- (6) For the period July 1, 2021 through June 30, 2022, reinstatement premium protection for \$70,000,000 of catastrophe coverage in excess of \$10,000,000.
- (7) The personal lines quota share (homeowners, dwelling fire and canine legal liability) expired on December 30, 2020; reinsurance coverage from December 31, 2020 through June 30, 2022 is only for excess of loss and catastrophe reinsurance.
- (8) Excludes freeze and freeze related claims.

Line of Business	Treaty Year		
	July 1, 2021 to June 30, 2022	July 1, 2020 to June 30, 2021	July 1, 2019 to June 30, 2020
Personal Lines:			
Personal Umbrella			
Quota share treaty:			
Percent ceded - first \$1,000,000 of coverage	90%	90%	90%
Percent ceded - excess of \$1,000,000 of coverage	95%	95%	100%
Risk retained	\$ 300,000	\$ 300,000	\$ 100,000
Total reinsurance coverage per occurrence	\$ 4,700,000	\$ 4,700,000	\$ 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, 2022	June 30, 2021	June 30, 2020
Commercial Lines (1):			
General liability commercial policies			
Quota share treaty		None	None
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
	\$ 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
Commercial Umbrella			
Quota share treaty		None	None

- (1) Coverage on all commercial lines policies expired in September 2020; reinsurance coverage is based on treaties in effect on the date of loss.

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 earned ceding commission revenue under its expired quota share reinsurance agreements based on: (i) a fixed provisional commission rate at which provisional ceding commissions were earned, and (ii) a continuing 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.

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The Company's estimated ultimate treaty year loss ratios (the "Loss Ratio(s)") for treaties in effect during the three months and nine months ended September 30, 2020 are attributable to contracts under the 2019/2020 Treaty. There was no treaty in effect during the three months and nine months ended September 30, 2021. In addition to the treaty that was in effect during the three months and nine months ended September 30, 2020, 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 September 30,		Nine months ended September 30,	
2021	2020	2021	2020

Provisional ceding commissions earned	\$ 40,578	\$ 3,460,768	\$ 135,666	\$ 10,621,804
Contingent ceding commissions earned	(47,854)	(11,994)	(98,266)	138,283
	<u>\$ (7,276)</u>	<u>\$ 3,448,774</u>	<u>\$ 37,400</u>	<u>\$ 10,760,087</u>

Provisional ceding commissions are settled monthly. Balances due from reinsurers for contingent ceding commissions on quota share treaties are settled periodically 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, 2021 and December 31, 2020, net contingent ceding commissions payable to reinsurers under all treaties was approximately \$3,083,000 and \$2,604,000, respectively, which is recorded in reinsurance balances payable on the accompanying consolidated balance sheets.

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”). KICO is required to maintain an investment in capital stock of FHLBNY. Based on redemption provisions of FHLBNY, the stock has no quoted market value and is carried at cost. At its discretion, FHLBNY may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in the stock. At September 30, 2021 and December 31, 2020, no impairment has been recognized. 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. As of September 30, 2021 KICO did not have any securities pledged to FHLBNY; furthermore, there were no borrowings under this facility during the nine months ended September 30, 2021 and 2020.

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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% per annum. 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% per annum. The balance of long-term debt as of September 30, 2021 and December 31, 2020 is as follows:

	<u>September 30,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
5.50% Senior Unsecured Notes	\$ 30,000,000	\$ 30,000,000
Discount	(40,552)	(64,883)
Issuance costs	(179,702)	(287,506)
Long-term debt, net	<u>\$ 29,779,746</u>	<u>\$ 29,647,611</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.

The Company has used an aggregate \$28,256,335 of the net proceeds from the offering to contribute capital to KICO in order to support additional growth. The remainder of the net proceeds was 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 \$1,274,797 and \$1,530,390 for the nine months ended September 30, 2021 and 2020, respectively. The Company's Board of Directors approved a quarterly dividend on October 30, 2021 of \$.04 per share payable in cash on December 15, 2021 to stockholders of record as of November 30, 2021 (see Note 13 - Subsequent Events).

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 were initially 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). Non-statutory stock options granted under the 2014 Plan expire no later than ten years from the date of grant. The Board of Directors or the Compensation Committee determines the vesting provisions for stock awards granted under the 2014 Plan, subject to the provisions of the 2014 Plan. On August 5, 2020, the Company's stockholders approved amendments to the 2014 Plan, including an increase in the maximum number of shares of Common Stock of the Company that are authorized to be issued pursuant to the 2014 Plan to 1,400,000.

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The results of operations for the three months ended September 30, 2021 and 2020 include stock-based compensation expense for stock options totaling approximately \$14,000 for both periods. The results of operations for the nine months ended September 30, 2021 and 2020 include stock-based compensation expense for stock options totaling approximately \$43,000 and \$52,000, respectively. Stock-based compensation expense related to stock options is net of estimated forfeitures of approximately 16% for the three months and nine months ended September 30, 2021 and 2020. Such amounts have been included in the condensed consolidated statements of operations and comprehensive income (loss) within other operating expenses.

No options were granted during the nine months ended September 30, 2021. The weighted average estimated fair value of stock options granted during the nine months ended September 30, 2020 was \$2.40 per share. 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,	
	2021	2020
Dividend Yield	n/a	3.14%
Volatility	n/a	37.69%
Risk-Free Interest Rate	n/a	1.40%
Expected Life	n/a	2.75%

The Black-Scholes option pricing 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 the Company's stock options.

A summary of stock option activity under the Company's 2014 Plan for the nine months ended September 30, 2021 is as follows:

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Stock Options	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2021	119,966	\$ 8.26	3.55	\$ -
Granted	-	\$ -	-	\$ -
Exercised	-	\$ -	-	\$ -
Expired	(12,000)	\$ 7.85	-	\$ -
Outstanding at September 30, 2021	107,966	\$ 8.31	3.18	\$ -
Vested and Exercisable at September 30, 2021	40,000	\$ 8.67	2.79	\$ -

The aggregate intrinsic value of options outstanding and options exercisable at September 30, 2021 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 \$6.64 closing price of the Company's Common Stock on September 30, 2021. No options were exercised during the nine months ended September 30, 2021. The total intrinsic value of options expired during the nine months ended September 30, 2021 was \$-0-, determined as of the date of expiration.

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").

As of September 30, 2021, the estimated fair value of unamortized compensation cost related to unvested stock option awards was approximately \$21,000. Unamortized compensation cost as of September 30, 2021 is expected to be recognized over a remaining weighted-average vesting period of 0.63 years.

As of September 30, 2021, there were 510,749 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, 2021 is as follows:

Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value per Share	Aggregate Fair Value
Balance at January 1, 2021	370,964	\$ 9.96	\$ 3,990,999
Granted	321,335	\$ 6.95	\$ 2,233,366
Vested	(104,870)	\$ 9.60	\$ (1,006,771)
Forfeited	(14,745)	\$ -	\$ -
Balance at September 30, 2021	572,684	\$ 8.70	\$ 5,217,594

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, 2021 and 2020, stock-based compensation for these grants was approximately \$452,000 and \$416,000, 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, 2021 and 2020, stock-based compensation for these grants was approximately \$1,405,000 and \$1,321,000, respectively, which is included in other operating expenses on the accompanying 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.

Employee Stock Purchase Plan

On June 19, 2021, the Company's Board of Directors adopted the Employee Stock Purchase Plan (the "Purchase Plan"), subject to stockholder approval. Such approval was obtained on August 10, 2021. The purpose of the Purchase Plan is to provide eligible employees of the Company with an opportunity to use payroll deductions to purchase shares of Common Stock of the Company. The maximum number of shares of Common Stock that may be purchased under the Purchase Plan is 750,000, subject to adjustment as provided for in the Purchase Plan. The Plan was effective November 1, 2021.

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:

	September 30, 2021	December 31, 2020
Deferred tax asset:		
Net operating loss carryovers (1)	\$ 2,714,766	\$ -
Claims reserve discount	1,186,698	838,030
Unearned premium	4,115,130	3,880,275
Deferred ceding commission revenue	18,448	19,639
Other	693,141	648,691
Total deferred tax assets	8,728,183	5,386,635
Deferred tax liability:		
Investment in KICO (2)	759,543	759,543
Deferred acquisition costs	4,465,002	4,229,928
Intangible asset	105,000	105,000
Depreciation and amortization	697,742	954,446
Net unrealized gains of securities - available-for-sale	3,238,744	3,494,631
Total deferred tax liabilities	9,266,031	9,543,548
Net deferred income tax liability	\$ (537,848)	\$ (4,156,913)

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

Type of NOL	September 30, 2021	December 31, 2020	Expiration
-------------	-----------------------	----------------------	------------

Federal only, current year (A)	\$ 2,714,766	\$ 1,200,056	
NOL carried back	-	(1,200,056)	
Federal only, current year	\$ 2,714,766	\$ -	None
State only (B)			
	2,049,485	1,815,546	December 31, 2040
Valuation allowance	(2,049,485)	(1,815,546)	
State only, net of valuation allowance	-	-	
Total deferred tax asset from net operating loss carryovers	\$ 2,714,766	\$ -	

(A) On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law, allowing for a five year carryback of 2020 and 2019 NOLs. The Company elected on its 2019 federal income tax return to carry back the 2019 NOL to tax years 2014 and 2015. The Company elected on its 2020 federal income tax return to carry back the 2020 NOL to tax year 2015. The corporate tax rate in 2014 and 2015 was 34%, compared to the corporate tax rate of 21% in 2020 and 2019.

(B) Kingstone generates operating losses for state purposes and has prior year NOLs available. The state NOL as of September 30, 2021 and December 31, 2020 was approximately \$31,531,000 and \$27,931,000, respectively. KICO, the Company's insurance underwriting subsidiary, is not subject to state income taxes. KICO's state tax obligations are paid through a gross premiums tax, which is included in the consolidated statements of operations and comprehensive loss within other underwriting expenses. Kingstone has recorded a valuation allowance 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 2041.

(2) Deferred tax liability – Investment in KICO

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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, 2021 and 2020. 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, 2018 through December 31, 2020 remain subject to examination.

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 shares of Common Stock 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 Stock 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 nine months ended September 30, 2021, no options were included in the computation of diluted earnings per common share as they would have been anti-dilutive for the relevant periods and, as a result, the weighted average number of shares of Common Stock 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 shares of Common Stock used in the calculation of basic and diluted earnings/(loss) per common share follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Weighted average number of shares outstanding	10,523,515	10,673,077	10,622,988	10,737,853
Effect of dilutive securities, common share equivalents:				
Stock options	-	-	-	-
Restricted stock awards	-	-	-	-
Weighted average number of shares outstanding, used for computing diluted earnings per share	<u>10,523,515</u>	<u>10,673,077</u>	<u>10,622,988</u>	<u>10,737,853</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.

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. The lease has a term of seven years and two months expiring December 31, 2026.

Additional information regarding the Company's office operating leases is as follows:

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	Three months ended September 30, 2021	Nine months ended September 30, 2021
Lease cost		
Operating leases	\$ 57,459	\$ 172,377
Short-term leases	-	-
Total lease cost (1)	<u>\$ 57,459</u>	<u>\$ 172,377</u>
Other information on operating leases		
Cash payments included in the measurement of lease liability reported in operating cash flows	\$ 66,531	\$ 198,040
Discount rate	5.50%	5.50%
Remaining lease term in years	6 years	6 years

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

The following table presents the contractual maturities of the Company's lease liabilities as of September 30, 2021:

	For the Year Ending December 31,	Total
Remainder of 2021		\$ 66,531
2022		273,831
2023		283,415
2024		140,739
2025		94,799
Thereafter		98,117
Total undiscounted lease payments		957,432
Less: present value adjustment		104,438
Operating lease liability		<u>\$ 852,994</u>

Rent expense for the three months ended September 30, 2021 and 2020 amounted to \$57,459 and \$61,297, respectively. Rent expense for the nine months ended September 30, 2021 and 2020 amounted to \$172,377 and \$183,891, respectively. Rent expense is included in the accompanying condensed

consolidated statements of operations and comprehensive income (loss) within other underwriting expenses.

Employment Agreements

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.

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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 ("LTC") award 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. In addition, in the event of Mr. Goldstein's death, his estate would be entitled to receive his base salary, accrued bonus and accrued LTC payment through the date of death. Further, in the event that Mr. Goldstein's employment is terminated by the Company without cause or he resigns for good reason, or, in the event of the termination of Mr. Goldstein's employment due to disability or death, Mr. Goldstein's granted but unvested restricted stock awards will vest. 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 within eighteen months following a change of control of the Company.

Pursuant to the Amended Employment Agreement, in January 2020, Mr. Goldstein received a grant of 157,431 shares of restricted stock under the terms of the Company's 2014 Plan determined by dividing \$1,250,000 by the fair market value of the Company's Common Stock on the date of grant. This 2020 grant vested with respect to one-third of the award on the first anniversary of the grant date and will vest with respect to one-third of the award on each of the second anniversary of the grant date and December 31, 2022 based on the continued provision of services through the applicable vesting date. Also pursuant to the Amended Employment Agreement, Mr. Goldstein received a grant, under the terms of the 2014 Plan, during January 2021, of 230,769 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. This 2021 grant will vest 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 the continued provision of services through the applicable vesting date. Further, pursuant to the Amended Employment Agreement, Mr. Goldstein received in 2020 and 2021, and will be entitled to receive during 2022, a grant, under the terms of the 2014 Plan, 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. In January 2020, Mr. Goldstein was granted 17,191 shares of restricted stock pursuant to this provision. This grant vested with respect to one-third of the award on the first anniversary of the grant date and will vest with respect to one-third of the award on each of the second anniversary of the grant date and on December 31, 2022 based on the continued provision of services through the applicable vesting date. In January 2021, Mr. Goldstein was granted 21,000 shares of restricted stock pursuant to the provision. This grant will vest 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 the continued provision of services through the applicable vesting date. The 2022 grant will vest on December 31, 2022 based on the continued provision of services through such date.

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.

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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 provided 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) \$381,111 (representing the amount of base salary he would have received had he remained employed through March 31, 2020), (ii) \$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 stock awards previously granted to Mr. Thatcher in his capacity as an executive officer but which were unvested as of the Separation Date (the "Shares") (Mr. Thatcher shall not be entitled to any further grants of stock awards after the Separation Date).

Effective January 27, 2021, the Company entered into an agreement (the "Relinquishment Agreement") with Mr. Thatcher. Pursuant to the Relinquishment Agreement, Mr. Thatcher relinquished his right to receive 14,077 unissued Shares which vested on January 1, 2021, the right to receive 11,905 Shares which were scheduled to vest on March 14, 2021 and the right to receive 14,076 Shares which were scheduled to vest on January 1, 2022 in full consideration of the payment by the Company of an aggregate of \$280,406. In addition, the Company and KICO agreed to provide Mr. Thatcher with a

severance payment of \$20,000 in consideration for a release. Pursuant to the Separation Agreement, Mr. Thatcher agreed 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.

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 as KICO's Chief Operating Officer. The Golden Employment Agreement became effective as of September 25, 2019 (amended on December 24, 2020) and now expires on December 31, 2022.

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 vest in four equal installments, with the first installment vesting on the grant date, and the remaining installments vesting on the first, second, and third anniversaries of the grant date, subject to the terms of the stock option agreement between the Company and Ms. Golden. In January 2021, pursuant to the Golden Employment Agreement as amended, Ms. Golden was granted 30,000 shares of restricted Common Stock pursuant to the 2014 Plan and will be entitled to receive in January 2022 an additional grant of 30,000 shares of restricted Common Stock pursuant to the 2014 Plan. Each such grant will vest in three equal installments on each of the first, second and third anniversaries of the grant date.

COVID-19

The outbreak of the coronavirus, also known as "COVID-19", has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures have had and will continue to have a material adverse impact on global economic conditions as well as on the Company's business activities. The extent to which COVID-19 may impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in the United States and other countries to contain, prevent and treat the disease. These events are highly uncertain and, as such, the Company cannot determine their financial impact at this time. No adjustments have been made to the amounts reported in these condensed consolidated financial statements as a result of this matter.

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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 deferred compensation liability as of September 30, 2021 and December 31, 2020 amounted to \$831,441 and \$763,789, 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, 2021 and 2020.

Note 13 – Subsequent Events

The Company has evaluated events that occurred subsequent to September 30, 2021 through the date these condensed consolidated financial statements were issued for matters that required disclosure or adjustment in these condensed consolidated financial statements.

Reinsurance

Effective October 18, 2021, the Company entered into a stub catastrophe reinsurance treaty covering the period from October 18, 2021 through December 31, 2021. The treaty provides reinsurance coverage for catastrophe losses of \$5,000,000 in excess of \$5,000,000. Losses from freeze are excluded from the treaty (see Note 6 – Property and Casualty Insurance Activity - "Reinsurance").

Dividends Declared

On October 30, 2021, the Company's Board of Directors approved a quarterly dividend of \$0.04 per share payable in cash on December 15, 2021 to stockholders of record as of the close of business on November 30, 2021 (see Note 8 – Stockholders' Equity).

Nor'easter

The Company received 86 claims from a nor'easter that occurred during the month of October 2021 and does not expect a material amount of additional claims, if any, to be filed subsequent to November 15, 2021.

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

We offer property and casualty insurance products to individuals through our wholly owned subsidiary, Kingstone Insurance Company ("KICO"). KICO's insureds are located primarily in downstate New York, consisting of New York City, Long Island and Westchester County, although we are actively

writing business in New Jersey, Rhode Island, Connecticut and Massachusetts. We are licensed in the States of New York, New Jersey, Rhode Island, Connecticut, Massachusetts, Pennsylvania, Maine, and New Hampshire. For the three months and nine months ended September 30, 2021, respectively, 79.4% and 77.5% 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. 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 ("Net Cosi Revenue"). Commission expense is reduced by Net Cosi Revenue and Cosi-related operating expenses are included in other operating expenses. Cosi-related operating expenses are not included in our stand-alone insurance underwriting business and, accordingly, Cosi's 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 employment, occupancy 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.

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Commercial liability: 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 as of July 31, 2019 for these lines were non-renewed at the end of their annual terms. As of September 30, 2021, there are no commercial liability policies in-force. As of September 30, 2021, these expired policies represent approximately 20.3% 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 and 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.

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, and the current economic environment, and other factors, in forming its estimates and judgments of 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 comparability of our results of operations to those of similar companies.

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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 been reported prior to the reporting date, amounts recoverable from third party 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.

Consolidated Results of Operations

Nine Months Ended September 30, 2021 Compared to Nine Months Ended September 30, 2020

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,			
	2021	2020	Change	Percent
Revenues				
Direct written premiums	\$ 131,610	\$ 125,090	\$ 6,520	5.2%
Assumed written premiums	-	-	-	na%
	<u>131,610</u>	<u>125,090</u>	<u>6,520</u>	<u>5.2%</u>
Ceded written premiums				
Ceded to quota share treaties	374	24,562	(24,188)	(98.5)%
Ceded to excess of loss treaties	2,057	1,482	575	38.8%
Ceded to catastrophe treaties	19,423	17,770	1,653	9.3%
Total ceded written premiums	<u>21,854</u>	<u>43,814</u>	<u>(21,960)</u>	<u>(50.1)%</u>
Net written premiums	<u>109,756</u>	<u>81,276</u>	<u>28,480</u>	<u>35.0%</u>
Change in unearned premiums				
Direct and assumed	(2,911)	2,216	(5,127)	na
Ceded to quota share treaties	(15)	(2,392)	2,377	99.4%
Change in net unearned premiums	<u>(2,926)</u>	<u>(176)</u>	<u>(2,750)</u>	<u>(1,562.5)%</u>
Premiums earned				
Direct and assumed	128,698	127,305	1,393	1.1%
Ceded to reinsurance treaties	(21,869)	(46,206)	24,337	52.7%
Net premiums earned	<u>106,829</u>	<u>81,099</u>	<u>25,730</u>	<u>31.7%</u>
Ceding commission revenue	37	10,760	(10,723)	(99.7)%
Net investment income	5,138	4,772	366	7.7%
Net gains (losses) on investments	5,480	(1,639)	7,119	na%
Other income	577	773	(196)	(25.4)%
Total revenues	<u>118,062</u>	<u>95,765</u>	<u>22,296</u>	<u>23.3%</u>
Expenses				
Loss and loss adjustment expenses				
Direct and assumed:				
Loss and loss adjustment expenses excluding the effect of catastrophes	67,739	52,737	15,002	28.4%
Losses from catastrophes (1)	12,541	20,407	(7,866)	(38.5)%
Total direct and assumed loss and loss adjustment expenses	<u>80,280</u>	<u>73,144</u>	<u>7,136</u>	<u>9.8%</u>
Ceded loss and loss adjustment expenses:				
Loss and loss adjustment expenses excluding the effect of catastrophes	860	13,794	(12,934)	(93.8)%
Losses from catastrophes (1)	360	10,033	(9,673)	(96.4)%
Total ceded loss and loss adjustment expenses	<u>1,220</u>	<u>23,827</u>	<u>(22,607)</u>	<u>(94.9)%</u>
Net loss and loss adjustment expenses:				
Loss and loss adjustment expenses excluding the effect of catastrophes	66,879	38,943	27,936	71.7%
Losses from catastrophes (1)	12,181	10,374	1,807	17.4%
Net loss and loss adjustment expenses	<u>79,060</u>	<u>49,317</u>	<u>29,743</u>	<u>60.3%</u>
Commission expense	24,711	23,653	1,058	4.5%

Other underwriting expenses	19,723	19,434	289	1.5%
Other operating expenses	3,141	3,364	(223)	(6.6)%
Depreciation and amortization	2,480	2,070	410	19.8%
Interest expense	1,370	1,370	-	-%
Total expenses	130,485	99,209	31,277	31.5%
Loss before taxes	(12,423)	(3,443)	(8,980)	(260.8)%
Income tax benefit	(2,817)	(1,379)	(1,438)	(104.3)%
Net loss	\$ (9,606)	\$ (2,064)	\$ (7,542)	(365.4)%

- (1) The nine months ended September 30, 2021 and 2020 include 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.

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	Nine months ended September 30,			
	2021	2020	Percentage Point Change	Percent Change
Key ratios:				
Net loss ratio	74.0%	60.8%	13.2	21.7%
Net underwriting expense ratio	41.0%	38.9%	2.1	5.4%
Net combined ratio	115.0%	99.7%	15.3	15.3%

Direct Written Premiums

Direct written premiums during the nine months ended September 30, 2021 (“Nine Months 2021”) were \$131,610,000 compared to \$125,090,000 during the nine months ended September 30, 2020 (“Nine Months 2020”). The increase of \$6,520,000, or 5.2%, was primarily due an increase in premiums from our personal lines business. Direct written premiums from our personal lines business for Nine Months 2021 were \$124,593,000, an increase of \$4,995,000, or 4.2%, from \$119,598,000 in Nine Months 2020. Direct written premiums from our livery physical damage business for Nine Months 2021 were \$6,837,000, an increase of \$1,370,000, or 25.1%, from \$5,467,000 in Nine Months 2020. The increase in livery physical damage direct written premiums is due to the declining effect of the COVID-19 pandemic in our geographic area.

Beginning in 2017 we started writing homeowners policies in New Jersey. Through 2019 we expanded to Rhode Island, Massachusetts and Connecticut. 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 \$29,620,000 in Nine Months 2021 compared to \$24,293,000 in Nine Months 2020. Direct written premiums from our Core business were \$101,990,000 in Nine Months 2021 compared to \$100,796,000 in Nine Months 2020.

Net Written Premiums and Net Premiums Earned

Effective December 15, 2019, we entered into a quota share reinsurance treaty for our personal lines business covering the period from December 15, 2019 through December 30, 2020 (“2019/2020 Treaty”). Effective December 31, 2020, the 2019/2020 Treaty expired on a cut off basis; this treaty was not renewed. In addition to the 2019/2020 Treaty, our personal lines quota share reinsurance treaty in effect for Nine Months 2020 also included the run-off of the personal lines quota share treaty (“2018/2019 Treaty”) that expired on June 30, 2019. The run-off covered the period from July 1, 2019 through June 30, 2020 (“2019/2020 Run-Off”). The following table describes the quota share reinsurance ceding rates in effect during Nine Months 2021 and Nine Months 2020. 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.

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	Nine months ended September 30,	
	2021	2020
Quota share reinsurance rates		
Personal lines		
2019/2020 Treaty	n/a	25% (1)
2018/2019 Treaty	n/a	10% (2)

- (1) The 2019/2020 Treaty was effective from December 15, 2019 through December 30, 2020 with a quota share reinsurance rate of 25%.
- (2) The 2018/2019 Treaty expired on a run-off basis from July 1, 2019 through June 30, 2020.

Net written premiums increased \$28,480,000, or 35.0%, to \$109,756,000 in Nine Months 2021 from \$81,276,000 in Nine Months 2020. 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). The increase in net written premiums in Nine Months 2021 was attributable to the expiration of the 2019/2020 Treaty on December 30, 2020 on a cut-off basis (see table above). In Nine Months 2021, our premiums ceded under quota share treaties decreased by \$24,188,000 in

comparison to ceded premiums in Nine Months 2020. Our personal lines business was subject to the 2019/2020 Treaty from December 15, 2019 through December 30, 2020. Our personal lines business was subject to the 2018/2019 Treaty through June 30, 2019. Following June 30, 2019, any earned premium and associated claims for policies still in force continued to be ceded under the 10% quota share rate until such policies expired (run-off) over the next year. The 2019/2020 run-off period was from July 1, 2019 through June 30, 2020 and there was no return of unearned premiums under this arrangement.

Excess of loss reinsurance treaties

An increase in written premiums will increase the premiums ceded under our excess of loss treaties. In Nine Months 2021, our ceded excess of loss reinsurance premiums increased by \$575,000 over the comparable ceded premiums for Nine Months 2020. 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 2021, our premiums ceded under catastrophe treaties increased by \$1,653,000 over the comparable ceded premiums in Nine Months 2020. The change was due to an increase in reinsurance rates effective July 1, 2020, partially offset by a decrease in our limit effective July 1, 2020. Through September 30, 2020, our ceded catastrophe premiums were paid based on the total direct written premiums subject to the catastrophe reinsurance treaty. Effective July 1, 2020, and continuing through June 30, 2021, our ceded catastrophe premiums were paid based on the total insured value of our risks calculated as of August 31, 2020. Effective July 1, 2021, and continuing through September 30, 2021, our ceded catastrophe premiums were paid based on the total insured value of our risks projected as of August 31, 2021.

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Net premiums earned

Net premiums earned increased \$25,730,000, or 31.7%, to \$106,829,000 in Nine Months 2021 from \$81,099,000 in Nine Months 2020. The increase was due to the expiration of both the 2019/2020 Treaty on December 30, 2020 on a cut-off basis and the 2019/2020 Run-Off as of June 30, 2020.

Ceding Commission Revenue

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,			
	2021	2020	Change	Percent
Provisional ceding commissions earned	\$ 136	\$ 10,622	\$ (10,486)	(98.7)%
Contingent ceding commissions earned	(99)	138	(237)	n/a
Total ceding commission revenue	\$ 37	\$ 10,760	\$ (10,723)	(99.7)%

Ceding commission revenue was \$37,000 in Nine Months 2021 compared to \$10,760,000 in Nine Months 2020. The decrease of \$10,723,000 was due to a decrease in both provisional ceding commissions earned and contingent ceding commissions earned. See below for a discussion of provisional ceding commissions earned and contingent ceding commissions earned.

Provisional Ceding Commissions Earned

Through December 30, 2020, we received a provisional ceding commission based on ceded written premiums. The \$10,486,000 decrease in provisional ceding commissions earned was due to the expiration of both the 2019/2020 Treaty on December 30, 2020 on a cut-off basis and the 2019/2020 Run-Off as of June 30, 2020.

Contingent Ceding Commissions Earned

The structure of the 2019/2020 Treaty and 2019/2020 Run-Off called for a higher upfront provisional ceding commission and there was not an opportunity to earn additional contingent ceding commissions under those treaties. 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. Under our prior years' quota share treaties, we received 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.

Net Investment Income

Net investment income was \$5,138,000 in Nine Months 2021 compared to \$4,772,000 in Nine Months 2020, an increase of \$366,000, or 7.7%. The average yield on invested assets was 3.42% as of September 30, 2021 compared to 3.51% as of September 30, 2020.

Cash and invested assets were \$246,004,000 as of September 30, 2021 compared to \$220,749,000 as of September 30, 2020. The \$25,255,000 increase in cash and invested assets was primarily attributable to the return of premiums ceded, net of ceding commissions, at the expiration of the 2019/2020 Treaty and by an increase in unrealized gains during the periods after September 30, 2020.

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Net Gains and Losses on Investments

Net gains on investments were \$5,480,000 in Nine Months 2021 compared to net losses of \$1,639,000 in Nine Months 2020. Unrealized gains on our equity securities and other investments in Nine Months 2021 were \$2,603,000, compared to unrealized losses of \$2,394,000 in Nine Months 2020. Realized gains on sales of investments were \$2,877,000 in Nine Months 2021 compared to a gain of \$755,000 in Nine Months 2020.

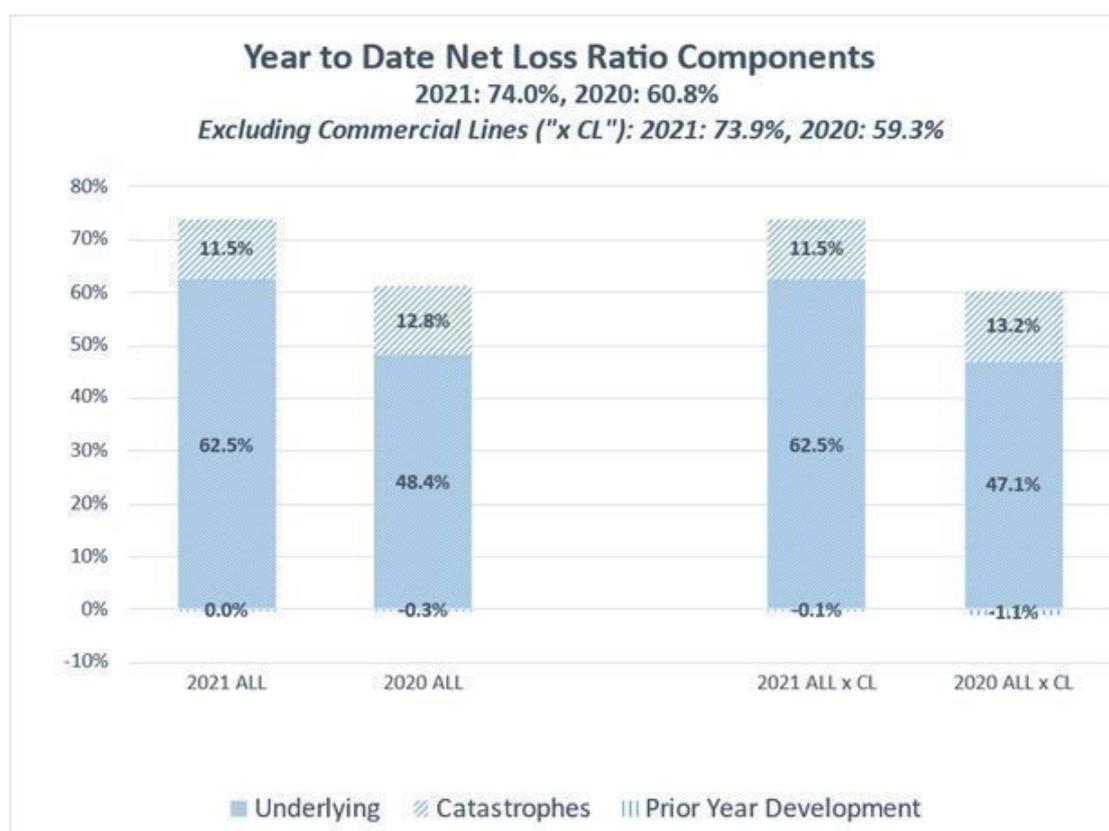
Other Income

Other income was \$577,000 in Nine Months 2021 compared to \$773,000 in Nine Months 2020. The decrease of \$196,000, or 25.4%, was primarily due to the elimination of fees in our commercial lines business that was in run-off in Nine Months 2020, a result of our decision in July 2019 to no longer underwrite this line of business.

Net Loss and LAE

Net loss and LAE was \$79,060,000 for Nine Months 2021 compared to \$49,317,000 for Nine Months 2020. The net loss ratio was 74.0% in Nine Months 2021 compared to 60.8% in Nine Months 2020, an increase of 13.2 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:



(Components may not sum to totals due to rounding)

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The loss ratio during Nine Months 2021 was higher than Nine Months 2020 due to an elevated frequency of liability claims, as well as a higher impact from large fire losses and water damage claims. The elevated reported liability claim frequency began in early 2021 for both Homeowners and Dwelling Fire lines. Liability frequency has improved since June 2021 for Homeowners, our largest line of business, but remains elevated for Dwelling Fire. This is suspected to be related to the COVID-19 pandemic and is expected to return to a more typical level as people return to work. The impact of water damage claims during Nine Months 2021 was higher than the prior year period but was in line with the long-term average.

The impact of catastrophe losses was high for Nine Months 2021. The winter was mild, but there were five catastrophe events during the three months ended September 30, 2021, including three named storms, Elsa, Henri and Ida. Ida was one of the largest catastrophe events in the company's history, resulting in over 1,500 reported claims. The estimated net impact of Ida is \$9,600,000, or a 9.0-point impact on the year-to-date loss ratio. The total impact of all catastrophe events on the loss ratio is 11.5 points for Nine Months 2021. This compares to a 12.8 points impact from catastrophe events for Nine Months 2020, which also had a mild winter but was heavily impacted by Tropical Storm Isaias in the three months ended September 30, 2020.

Prior year development continued to be stable for Nine Months 2021. There was an overall favorable development of \$11,000, which had a marginal impact on the loss ratio.

See table below under "Additional Financial Information" summarizing net loss ratios by line of business.

Commission Expense

Commission expense was \$24,711,000 in Nine Months 2021 or 19.2% of direct earned premiums. Commission expense was \$23,653,000 in Nine Months 2020 or 18.6% of direct earned premiums. The increase in the rate is due to an increase in the estimate for annual contingent commissions for Nine Months 2021 as compared to Nine Months 2020.

Other Underwriting Expenses

Other underwriting expenses were \$19,723,000 in Nine Months 2021 compared to \$19,434,000 in Nine Months 2020. The modest increase of \$289,000, or 1.5%, was primarily due to an initiative to reduce expenses with the use of technology.

Our largest single component of other underwriting expenses is salaries and employment costs, with costs of \$7,592,000 in Nine Months 2021 compared to \$8,177,000 in Nine Months 2020. The decrease of \$585,000, or 7.2%, compares favorably with the 4.2% increase in personal lines direct written premiums. The decrease in employment costs was attributable to staff reductions.

Our net underwriting expense ratio in Nine Months 2021 was 41.0% compared to 38.9% in Nine Months 2020. The following table shows the individual components of our net underwriting expense ratio for the periods indicated:

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	Nine months ended		Percentage Point Change
	2021	September 30, 2020	
Other underwriting expenses			
Employment costs	7.1%	10.1%	(3.0)
Underwriting fees (inspections/data services)	1.4	2.8	(1.4)
IT expenses	3.0	2.6	0.4
Other expenses	7.0	8.4	(1.4)
Total other underwriting expenses	<u>18.5</u>	<u>23.9</u>	<u>(5.4)</u>
Commission expense	<u>23.1</u>	<u>29.2</u>	<u>(6.1)</u>
Ceding commission revenue			
Provisional	(0.1)	(13.1)	13.0
Contingent	0.1	(0.2)	0.3
Total ceding commission revenue	<u>-</u>	<u>(13.3)</u>	<u>13.3</u>
Other income	<u>(0.6)</u>	<u>(0.9)</u>	<u>0.3</u>
Net underwriting expense ratio	<u>41.0%</u>	<u>38.9%</u>	<u>2.1</u>

The overall 13.3 percentage point decrease in the benefit from ceding commissions in Nine Months 2020 was driven by the reduction in provisional ceding commission revenue due to the expiration of the 2019/2020 Treaty on December 30, 2020. The components of our net underwriting expense ratio related to other underwriting expenses and commissions decreased in all categories due to more retention, given the reduction of ceded premiums after the expiration of the 2019/2020 Treaty on December 30, 2020, resulting in an 11.5 percentage point decrease in these components of the net underwriting expense ratio.

Other Operating Expenses

Other operating expenses, related to the expenses of our holding company and Cosi, were \$3,141,000 for Nine Months 2021 compared to \$3,364,000 for Nine Months 2020. The decrease in Nine Months 2021 of \$223,000, or 6.6%, as compared to Nine Months 2020 was primarily due to a decrease in professional fees. This aforementioned decrease was partially offset by an increase in employment costs due to fluctuations in deferred compensation liability related to changes in the underlying invested portfolio and compensation paid pursuant to a relinquishment agreement with Dale A. Thatcher, our former Chief Executive Officer (see Note 11 to the condensed consolidated financial statements).

Depreciation and Amortization

Depreciation and amortization was \$2,480,000 in Nine Months 2021 compared to \$2,070,000 in Nine Months 2020. The increase of \$410,000, or 19.8%, in depreciation and amortization was primarily due to depreciation of new system platforms for policy and claims management and newly purchased assets used to upgrade our other systems.

Interest Expense

Interest expense was \$1,370,000 for both Nine Months 2021 and Nine Months 2020. We incurred interest expense in connection with our \$30.0 million issuance of long-term debt in December 2017.

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Income Tax Expense

Income tax benefit in Nine Months 2021 was \$2,817,000, which resulted in an effective tax expense rate of 22.7%. Income tax benefit in Nine Months 2020 was \$1,379,000, which resulted in an effective tax expense rate of 40.1%. Loss before taxes was \$12,423,000 in Nine Months 2021 compared to loss before taxes of \$3,443,000 in Nine Months 2020. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law, allowing for a five year carryback of 2020 NOLs. We elected on our 2020 federal income tax return to carry back the entire annual 2020 NOL of \$5,715,000 to tax year 2015. The corporate tax rate in 2015 was 34%, compared to the corporate tax rate of 21% in 2020.

Net Loss

Net loss was \$9,606,000 in Nine Months 2021 compared to net loss of \$2,064,000 in Nine Months 2020. The increase in net loss of \$7,542,000 was due to the circumstances described above, which caused the increases in net loss ratio, commission expense, other underwriting expenses, depreciation and amortization, and decrease in ceding commission revenue and other income, partially offset by the increases in our net premiums earned, net investment income, net gains on investments, and income tax benefit, and decreases in other operating expenses.

Three Months Ended September 30, 2021 Compared to Three Months Ended September 30, 2020

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

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(\$ in thousands)	Three months ended September 30,			
	2021	2020	Change	Percent
Revenues				
Direct written premiums	\$ 48,865	\$ 45,743	\$ 3,122	6.8%
Assumed written premiums	-	-	-	na%
	<u>48,865</u>	<u>45,743</u>	<u>3,122</u>	<u>6.8%</u>
Ceded written premiums				
Ceded to quota share treaties	139	8,962	(8,823)	(98.4)%
Ceded to excess of loss treaties	998	535	463	86.5%
Ceded to catastrophe treaties	6,086	6,251	(165)	(2.6)%
Total ceded written premiums	<u>7,223</u>	<u>15,748</u>	<u>(8,525)</u>	<u>(54.1)%</u>
Net written premiums	<u>41,642</u>	<u>29,995</u>	<u>11,647</u>	<u>38.8%</u>
Change in unearned premiums				
Direct and assumed	(4,848)	(3,161)	(1,687)	(53.4)%
Ceded to quota share treaties	10	688	(678)	(98.5)%
Change in net unearned premiums	<u>(4,838)</u>	<u>(2,473)</u>	<u>(2,365)</u>	<u>(95.6)%</u>
Premiums earned				
Direct and assumed	44,017	42,581	1,436	3.4%
Ceded to reinsurance treaties	(7,214)	(15,060)	7,846	52.1%
Net premiums earned	<u>36,803</u>	<u>27,521</u>	<u>9,282</u>	<u>33.7%</u>
Ceding commission revenue	(7)	3,449	(3,456)	na%
Net investment income	1,677	1,494	183	12.2%
Net gains on investments	204	2,107	(1,903)	(90.3)%
Other income	281	251	30	12.0%
Total revenues	<u>38,958</u>	<u>34,822</u>	<u>4,136</u>	<u>11.9%</u>
Expenses				
Loss and loss adjustment expenses				
Direct and assumed:				
Loss and loss adjustment expenses excluding the effect of catastrophes	23,643	15,656	7,987	51.0%
Losses from catastrophes (1)	12,435	18,069	(5,634)	na%
Total direct and assumed loss and loss adjustment expenses	<u>36,078</u>	<u>33,725</u>	<u>2,353</u>	<u>7.0%</u>
Ceded loss and loss adjustment expenses:				
Loss and loss adjustment expenses excluding the effect of catastrophes	(22)	4,202	(4,224)	na%
Losses from catastrophes (1)	360	9,405	(9,045)	(96.2)%
Total ceded loss and loss adjustment expenses	<u>338</u>	<u>13,607</u>	<u>(13,269)</u>	<u>(97.5)%</u>
Net loss and loss adjustment expenses:				
Loss and loss adjustment expenses excluding the effect of catastrophes	23,665	11,454	12,211	106.6%
Losses from catastrophes (1)	12,075	8,664	3,411	39.4%
Net loss and loss adjustment expenses	<u>35,740</u>	<u>20,118</u>	<u>15,622</u>	<u>77.7%</u>
Commission expense	8,202	8,036	166	2.1%
Other underwriting expenses	6,563	6,347	216	3.4%
Other operating expenses	855	1,038	(183)	(17.6)%
Depreciation and amortization	820	710	110	15.5%
Interest expense	457	457	-	-%
Total expenses	<u>52,637</u>	<u>36,706</u>	<u>15,931</u>	<u>43.4%</u>

Loss before taxes	(13,679)	(1,884)	(11,795)	(626.1)%
Income tax benefit	(3,061)	(656)	(2,405)	(366.6)%
Net loss	\$ (10,618)	\$ (1,228)	\$ (9,390)	(764.7)%

- (1) The three months ended September 30, 2021 and 2020 include 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.

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Key ratios:

	Three months ended September 30,			
	2021	2020	Point Change	Percent Change
Net loss ratio	97.1%	73.1%	24.0	32.8 %
Net underwriting expense ratio	39.3%	38.8%	0.5	1.3 %
Net combined ratio	136.4%	111.9%	24.5	21.9 %

Direct Written Premiums

Direct written premiums during the three months ended September 30, 2021 (“Three Months 2021”) were \$48,865,000 compared to \$45,743,000 during the three months ended September 30, 2020 (“Three Months 2020”). The increase of \$3,122,000, or 6.8%, was primarily due an increase in premiums from our personal lines business. Direct written premiums from our personal lines business for Three Months 2021 were \$45,985,000, an increase of \$2,344,000, or 5.4%, from \$43,641,000 in Three Months 2020. Direct written premiums from our livery physical damage business for Three Months 2021 were \$2,814,000, an increase of \$768,000, or 37.5%, from \$2,046,000 in Three Months 2020. The increase in livery physical damage direct written premiums is due to the declining effect of the COVID-19 pandemic in our geographic area.

Beginning in 2017 we started writing homeowners policies in New Jersey. Through 2019 we expanded to Rhode Island, Massachusetts and Connecticut. 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 \$10,049,000 in Three Months 2021 compared to \$9,197,000 in Three Months 2020. Direct written premiums from our Core business were \$38,816,000 in Three Months 2021 compared to \$36,545,000 in Three Months 2020.

Net Written Premiums and Net Premiums Earned

Effective December 15, 2019, we entered into a quota share reinsurance treaty for our personal lines business covering the period from December 15, 2019 through December 30, 2020 (“2019/2020 Treaty”). Effective December 31, 2020, the 2019/2020 Treaty expired on a cut off basis; this treaty was not renewed. The following table describes the quota share reinsurance ceding rates in effect during Three Months 2021 and Three Months 2020. 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,	
	2021	2020
Quota share reinsurance rates		
Personal lines		
2019/2020 Treaty	n/a	25% (1)

- (1) The 2019/2020 Treaty was effective from December 15, 2019 through December 30, 2020 with a quota share reinsurance rate of 25%.

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Net written premiums increased \$11,647,000, or 38.8%, to \$41,642,000 in Three Months 2021 from \$29,995,000 in Three Months 2020. 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). The increase in net written premiums in Three Months 2021 was attributable to the expiration of the 2019/2020 Treaty on December 30, 2020 on a cut-off basis (see table above). In Three Months 2021, our premiums ceded under quota share treaties decreased by \$8,823,000 in comparison to ceded premiums in Three Months 2020. Our personal lines business was subject to the 2019/2020 Treaty from December 15, 2019 through December 30, 2020.

Excess of loss reinsurance treaties

An increase in written premiums will increase the premiums ceded under our excess of loss treaties. In Three Months 2021, our ceded excess of loss reinsurance premiums increased by \$463,000 over the comparable ceded premiums for Three Months 2020. 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 Three Months 2021, our premiums ceded under catastrophe treaties decreased by \$165,000 over the comparable ceded premiums in Three Months 2020. The change was due to a decrease in reinsurance rates effective July 1, 2021, partially offset by an increase in our limit effective July 1, 2021. Effective July 1, 2020, and continuing through June 30, 2021, our ceded catastrophe premiums were paid based on the total insured value of our risks calculated as of August 31, 2020. Effective July 1, 2021, and continuing through September 30, 2021, our ceded catastrophe premiums were paid based on the total insured value of our risks projected as of August 31, 2021.

Net premiums earned

Net premiums earned increased \$9,282,000, or 33.7%, to \$36,803,000 in Three Months 2021 from \$27,521,000 in Three Months 2020. The increase was due to the expiration of the 2019/2020 Treaty on December 30, 2020 on a cut-off basis.

Ceding Commission Revenue

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,			
	2021	2020	Change	Percent
Provisional ceding commissions earned	\$ 41	\$ 3,461	\$ (3,420)	(98.8)%
Contingent ceding commissions earned	(48)	(12)	(36)	(300.0)%
Total ceding commission revenue	<u>\$ (7)</u>	<u>\$ 3,449</u>	<u>\$ (3,456)</u>	na

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Ceding commission revenue was \$(7,000) in Three Months 2021 compared to \$3,449,000 in Three Months 2020. The decrease of \$3,456,000 was due to a decrease in both provisional ceding commissions earned and contingent ceding commissions earned. See below for a discussion of provisional ceding commissions earned and contingent ceding commissions earned.

Provisional Ceding Commissions Earned

Through December 30, 2020, we received a provisional ceding commission based on ceded written premiums. The \$3,420,000 decrease in provisional ceding commissions earned was due to the expiration of the 2019/2020 Treaty on December 30, 2020 on a cut-off basis.

Contingent Ceding Commissions Earned

The structure of the 2019/2020 Treaty and 2019/2020 Run-Off called for a higher upfront provisional ceding commission and there was not an opportunity to earn additional contingent ceding commissions under those treaties. 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. Under our prior years' quota share treaties, we received 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.

Net Investment Income

Net investment income was \$1,677,000 in Three Months 2021 compared to \$1,494,000 in Three Months 2020, an increase of \$183,000, or 12.2%. The average yield on invested assets was 3.42% as of September 30, 2021 compared to 3.51% as of September 30, 2020.

Cash and invested assets were \$246,004,000 as of September 30, 2021 compared to \$220,749,000 as of September 30, 2020. The \$25,255,000 increase in cash and invested assets was primarily attributable to the return of premiums ceded, net of ceding commissions, at the expiration of the 2019/2020 Treaty and by an increase in unrealized gains during the periods after September 30, 2020.

Net Gains and Losses on Investments

Net gains on investments were \$204,000 in Three Months 2021 compared to \$2,107,000 in Three Months 2020. Unrealized losses on our equity securities and other investments in Three Months 2021 were \$829,000, compared to a gain of \$1,501,000 in Three Months 2020. Realized gains on sales of investments were \$1,033,000 in Three Months 2021 compared to \$597,000 in Three Months 2020.

Other Income

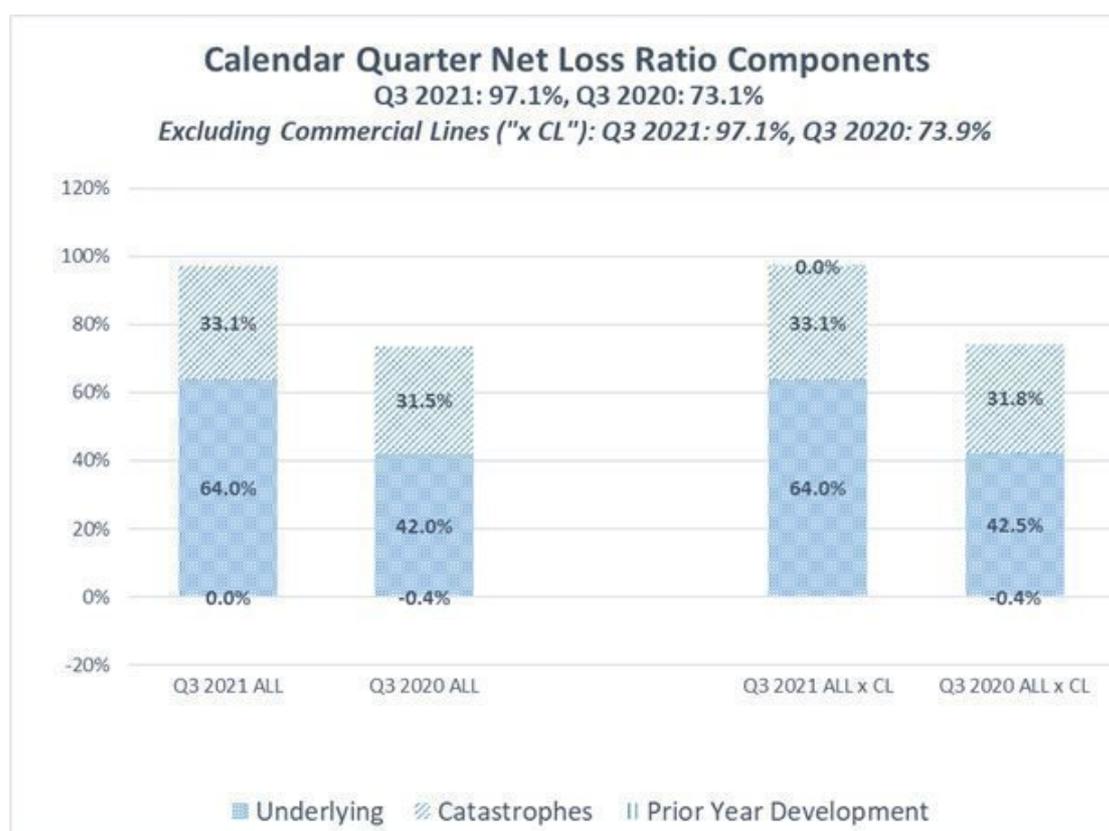
Other income was \$281,000 in Three Months 2021 compared to \$251,000 in Three Months 2020. The increase of \$30,000, or 12.0%, was primarily due to additional fees income related to the growth in direct written premiums.

Net Loss and LAE

Net loss and LAE was \$35,740,000 for Three Months 2021 compared to \$20,118,000 for Three Months 2020. The net loss ratio was 97.1% in Three Months 2021 compared to 73.1% in Three Months 2020, an increase of 24.0 percentage points.

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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:



(Components may not sum to totals due to rounding)

During Three Months 2021, the loss ratio was higher than Three Months 2020 mainly due to the impact of catastrophe events, an elevated frequency of liability claims from the Dwelling Fire line, and a higher frequency of large fire losses.

The impact of catastrophe losses was significant for Three Months 2021. There were five catastrophe events during Three Months 2021, including three named storms, Elsa, Henri and Ida. Ida was one of the largest catastrophe events in the company's history, resulting in over 1,500 reported claims. The estimated net impact of Ida is \$9.6 million, or a 26.1 point impact on the quarterly loss ratio. The total impact of all catastrophe events on the loss ratio is 33.1 points for the quarter. This compares to a 31.5-point impact from catastrophe events in Three Months 2020, which was heavily impacted by Tropical Storm Isaias.

Prior year development continued to be stable for Three Months 2021. The loss estimates from all prior years were adjusted down by \$2,000, which had a marginal impact on the loss ratio.

The underlying loss ratio (loss ratio excluding the impact of catastrophe and prior year development) was 64.0% for Three Months 2021, an increase of 22.0 points from the 42.0% underlying loss ratio recorded for Three Months 2020. The higher 2021 loss ratio was primarily due to large fire claims and an increase in liability claims frequency for the Dwelling Fire line, which is suspected to be related to the COVID-19 pandemic.

See table below under "Additional Financial Information" summarizing net loss ratios by line of business.

Commission Expense

Commission expense was \$8,202,000 in Three Months 2021 or 18.6% of direct earned premiums. Commission expense was \$8,036,000 in Three Months 2020 or 18.9% of direct earned premiums. The increase in the rate is due to an increase in the estimate for annual contingent commissions for Three Months 2021 as compared to Three Months 2020.

Other Underwriting Expenses

Other underwriting expenses were \$6,563,000 in Three Months 2021 compared to \$6,347,000 in Three Months 2020. The increase of \$216,000, or 3.4%, was primarily due an increase in consulting fees and IT expense as part of an initiative to reduce overall expenses with the use of technology. This initiative resulted in a decrease or modest increase in the remaining other underwriting expenses.

Our largest single component of other underwriting expenses is salaries and employment costs, with costs of \$2,513,000 in Three Months 2021 compared to \$2,835,000 in Three Months 2020. The decrease of \$322,000, or 11.4%, compares favorably with the 5.4% increase in personal lines direct written premiums. The decrease in employment costs was attributable to staff reductions.

Our net underwriting expense ratio in Three Months 2021 was 39.3% compared to 38.8% in Three Months 2020. The following table shows the individual components of our net underwriting expense ratio for the periods indicated:

	Three months ended September 30,		Percentage Point Change
	2021	2020	
Other underwriting expenses			
Employment costs	6.8%	10.3%	(3.5)
Underwriting fees (inspections/data services)	1.3	2.4	(1.1)
IT expenses	2.9	2.7	0.2
Other expenses	6.9	7.7	(0.8)
Total other underwriting expenses	<u>17.9</u>	<u>23.1</u>	<u>(5.2)</u>
Commission expense	<u>22.3</u>	<u>29.2</u>	<u>(6.9)</u>
Ceding commission revenue			
Provisional	(0.1)	(12.6)	12.5
Contingent	0.1	-	0.1
Total ceding commission revenue	<u>-</u>	<u>(12.6)</u>	<u>12.6</u>
Other income	<u>(0.9)</u>	<u>(0.9)</u>	<u>-</u>
Net underwriting expense ratio	<u><u>39.3%</u></u>	<u><u>38.8%</u></u>	<u><u>0.5</u></u>

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The overall 12.6 percentage point decrease in the benefit from ceding commissions in Three Months 2021 was driven by the reduction in provisional ceding commission revenue due to the expiration of the 2019/2020 Treaty on December 30, 2020. The components of our net underwriting expense ratio related to other underwriting expenses and commissions decreased in all categories due to more retention after the expiration of the 2019/2020 Treaty on December 30, 2020, resulting in a 12.1 percentage point decrease in these components of the net underwriting expense ratio.

Other Operating Expenses

Other operating expenses, related to the expenses of our holding company and Cosi, were \$855,000 for Three Months 2021 compared to \$1,038,000 for Three Months 2020. The decrease in Three Months 2021 of \$183,000, or 17.6%, as compared to Three Months 2020 was primarily due to a decrease in professional fees and employment costs.

Depreciation and Amortization

Depreciation and amortization was \$820,000 in Three Months 2021 compared to \$710,000 in Three Months 2020. The increase of \$110,000, or 15.5%, in depreciation and amortization was primarily due to depreciation of new system platforms for policy and claims management and newly purchased assets used to upgrade our other systems.

Interest Expense

Interest expense was \$457,000 for both Three Months 2021 and Three Months 2020. We incurred interest expense in connection with our \$30.0 million issuance of long-term debt in December 2017.

Income Tax Expense

Income tax benefit in Three Months 2021 was \$3,061,000, which resulted in an effective tax expense rate of 22.4%. Income tax benefit in Three Months 2020 was \$656,000, which resulted in an effective tax expense rate of 34.8%. Loss before taxes was \$13,679,000 in Three Months 2021 compared to loss before taxes of \$1,884,000 in Three Months 2020. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law, allowing for a five year carryback of 2020 NOLs. We elected on our 2020 federal income tax return to carry back the entire annual 2020 NOL of \$5,715,000 to tax year 2015. The corporate tax rate in 2015 was 34%, compared to the corporate tax rate of 21% in 2020.

Net Loss

Net loss was \$10,618,000 in Three Months 2021 compared to net loss of \$1,228,000 in Three Months 2020. The increase in net loss of \$9,390,000 was due to the circumstances described above, which caused the increases in net loss ratio, commission expense, other underwriting expenses, depreciation and amortization, and decreases in ceding commission revenue and net gains on investments, partially offset by increases in our net premiums earned, net investment income, other income and income tax benefit and a decrease in other operating expenses.

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.

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Gross premiums written:				
Personal lines(3)	\$ 45,984,939	\$ 43,640,603	\$ 124,593,302	\$ 119,598,207
Livery physical damage	2,813,571	2,045,746	6,836,999	5,466,552
Other(1)	66,659	62,664	180,485	192,395
Total without commercial lines	48,865,169	45,749,013	131,610,786	125,257,154
Commercial lines (in run-off effective July 2019)(2)	-	(6,848)	(856)	(167,583)
Total gross premiums written	<u>\$ 48,865,169</u>	<u>\$ 45,742,165</u>	<u>\$ 131,609,930</u>	<u>\$ 125,089,571</u>
Net premiums written:				
Personal lines(3)	\$ 38,762,235	\$ 27,916,850	\$ 102,741,368	\$ 76,231,996
Livery physical damage	2,813,571	2,045,746	6,836,999	5,466,552
Other(1)	65,837	50,625	178,021	151,783
Total without commercial lines	41,641,643	30,013,221	109,756,388	81,850,331
Commercial lines (in run-off effective July 2019)(2)	-	(18,271)	(856)	(574,228)
Total net premiums written	<u>\$ 41,641,643</u>	<u>\$ 29,994,950</u>	<u>\$ 109,755,532</u>	<u>\$ 81,276,103</u>
Net premiums earned:				
Personal lines(3)	\$ 34,715,708	\$ 25,220,883	\$ 101,054,415	\$ 71,434,757
Livery physical damage	2,028,786	2,014,458	5,598,605	6,803,475
Other(1)	58,757	49,939	176,731	149,087
Total without commercial lines	36,803,251	27,285,280	106,829,751	78,387,319
Commercial lines (in run-off effective July 2019)(2)	-	235,801	(856)	2,712,068
Total net premiums earned	<u>\$ 36,803,251</u>	<u>\$ 27,521,081</u>	<u>\$ 106,828,895</u>	<u>\$ 81,099,387</u>
Net loss and loss adjustment expenses(4):				
Personal lines	\$ 32,958,728	\$ 18,657,325	\$ 72,353,668	\$ 41,810,950
Livery physical damage	1,766,989	648,520	3,469,465	1,798,210
Other(1)	180,995	29,104	434,816	5,465
Unallocated loss adjustment expenses	867,675	827,031	2,783,547	2,839,359
Total without commercial lines	35,774,387	20,161,980	79,041,496	46,453,984
Commercial lines (in run-off effective July 2019)(2)	(34,152)	(44,005)	18,621	2,863,443
Total net loss and loss adjustment expenses	<u>\$ 35,740,235</u>	<u>\$ 20,117,975</u>	<u>\$ 79,060,117</u>	<u>\$ 49,317,427</u>
Net loss ratio(4):				
Personal lines	94.9%	74.0%	71.6%	58.5%
Livery physical damage	87.1%	32.2%	62.0%	26.4%
Other(1)	308.0%	58.3%	246.0%	3.7%
Total without commercial lines	97.2%	73.9%	74.0%	59.3%
Commercial lines (in run-off effective July 2019)(2)	na	-18.7%	74.0%	105.6%
Total	97.1%	73.1%	74.0%	60.8%

- (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 discussion above with regard to "Net Written Premiums and Net Premiums Earned", as to changes in quota share ceding rates, effective December 31, 2020, December 15, 2019 and July 1, 2019.
- (4) See discussion above with regard to "Net Loss and LAE", as to catastrophe losses in the three months and nine months ended September 30, 2021 and 2020.

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 September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Revenues				
Net premiums earned	\$ 36,803,251	\$ 27,521,081	\$ 106,828,895	\$ 81,099,387
Ceding commission revenue	(7,276)	3,448,774	37,400	10,760,087
Net investment income	1,676,596	1,494,086	5,137,867	4,771,316
Net gains (losses) on investments	214,085	2,073,245	5,380,909	(1,580,398)
Other income	322,705	248,824	617,257	754,943

Total revenues	39,009,361	34,786,010	118,002,328	95,805,335
Expenses				
Loss and loss adjustment expenses	35,740,235	20,117,975	79,060,117	49,317,427
Commission expense	8,201,935	8,036,298	24,711,115	23,652,765
Other underwriting expenses	6,562,743	6,346,846	19,722,705	19,434,110
Depreciation and amortization	780,906	676,989	2,374,203	1,970,859
Total expenses	51,285,819	35,178,108	125,868,140	94,375,161
(Loss) income from operations	(12,276,458)	(392,098)	(7,865,812)	1,430,174
Income tax benefit	(2,633,026)	(203,922)	(1,812,195)	(24,888)
Net (loss) income	\$ (9,643,432)	\$ (188,176)	\$ (6,053,617)	\$ 1,455,062

Key Measures:

Net loss ratio	97.1%	73.1%	74.0%	60.8%
Net underwriting expense ratio	39.3%	38.8%	41.0%	38.9%
Net combined ratio	136.4%	111.9%	115.0%	99.7%

Reconciliation of net underwriting expense ratio:

Acquisition costs and other underwriting expenses	\$ 14,764,678	\$ 14,383,144	\$ 44,433,820	\$ 43,086,875
Less: Ceding commission revenue	7,276	(3,448,774)	(37,400)	(10,760,087)
Less: Other income	(322,705)	(248,824)	(617,257)	(754,943)
Net underwriting expenses	<u>\$ 14,449,249</u>	<u>\$ 10,685,546</u>	<u>\$ 43,779,163</u>	<u>\$ 31,571,845</u>
Net premiums earned	<u>\$ 36,803,251</u>	<u>\$ 27,521,081</u>	<u>\$ 106,828,895</u>	<u>\$ 81,099,387</u>
Net Underwriting Expense Ratio	<u>39.3%</u>	<u>38.8%</u>	<u>41.0%</u>	<u>38.9%</u>

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

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	<u>Direct</u>	<u>Assumed</u>	<u>Ceded</u>	<u>Net</u>
Nine months ended September 30, 2021				
Written premiums	\$ 131,609,930	\$ -	\$ (21,854,398)	\$ 109,755,532
Change in unearned premiums	(2,911,439)	-	(15,198)	(2,926,637)
Earned premiums	<u>\$ 128,698,491</u>	<u>\$ -</u>	<u>\$ (21,869,596)</u>	<u>\$ 106,828,895</u>
Loss and loss adjustment expenses excluding the effect of catastrophes	\$ 67,633,915	\$ -	\$ (860,490)	\$ 66,773,425
Catastrophe loss	12,647,172	-	(360,480)	12,286,692
Loss and loss adjustment expenses	<u>\$ 80,281,087</u>	<u>\$ -</u>	<u>\$ (1,220,970)</u>	<u>\$ 79,060,117</u>
Loss ratio excluding the effect of catastrophes	52.6%	0.0%	3.9%	62.5%
Catastrophe loss	9.8%	0.0%	1.6%	11.5%
Loss ratio	<u>62.4%</u>	<u>0.0%</u>	<u>5.5%</u>	<u>74.0%</u>
Nine months ended September 30, 2020				
Written premiums	\$ 125,089,571	\$ -	\$ (43,813,468)	\$ 81,276,103
Change in unearned premiums	2,215,602	-	(2,392,318)	(176,716)
Earned premiums	<u>\$ 127,305,173</u>	<u>\$ -</u>	<u>\$ (46,205,786)</u>	<u>\$ 81,099,387</u>
Loss and loss adjustment expenses excluding the effect of catastrophes	\$ 52,736,775	\$ -	\$ (13,794,461)	\$ 38,942,314
Catastrophe loss	20,407,638	-	(10,032,525)	10,375,113
Loss and loss adjustment expenses	<u>\$ 73,144,413</u>	<u>\$ -</u>	<u>\$ (23,826,986)</u>	<u>\$ 49,317,427</u>
Loss ratio excluding the effect of catastrophes	41.4%	0.0%	29.9%	48.0%
Catastrophe loss	16.0%	0.0%	21.7%	12.8%
Loss ratio	<u>57.4%</u>	<u>0.0%</u>	<u>51.6%</u>	<u>60.8%</u>
Three months ended September 30, 2021				
Written premiums	\$ 48,865,169	\$ -	\$ (7,223,526)	\$ 41,641,643
Change in unearned premiums	(4,848,145)	-	9,753	(4,838,392)
Earned premiums	<u>\$ 44,017,024</u>	<u>\$ -</u>	<u>\$ (7,213,773)</u>	<u>\$ 36,803,251</u>
Loss and loss adjustment expenses excluding the effect of catastrophes	\$ 23,537,875	\$ -	\$ 21,239	\$ 23,559,114
Catastrophe loss	12,541,601	-	(360,480)	12,181,121

Loss and loss adjustment expenses	\$ 36,079,476	\$ -	\$ (339,241)	\$ 35,740,235
Loss ratio excluding the effect of catastrophes	53.5%	0.0%	-0.3%	64.0%
Catastrophe loss	28.5%	0.0%	5.0%	33.1%
Loss ratio	82.0%	0.0%	4.7%	97.1%
Three months ended September 30, 2020				
Written premiums	\$ 45,742,165	\$ -	\$ (15,747,215)	\$ 29,994,950
Change in unearned premiums	(3,161,356)	-	687,487	(2,473,869)
Earned premiums	\$ 42,580,809	\$ -	\$ (15,059,728)	\$ 27,521,081
Loss and loss adjustment expenses excluding the effect of catastrophes	\$ 15,655,839	\$ -	\$ (4,202,861)	\$ 11,452,978
Catastrophe loss	18,069,690	-	(9,404,693)	8,664,997
Loss and loss adjustment expenses	\$ 33,725,529	\$ -	\$ (13,607,554)	\$ 20,117,975
Loss ratio excluding the effect of catastrophes	36.8%	0.0%	27.9%	91.6%
Catastrophe loss	42.4%	0.0%	62.4%	31.5%
Loss ratio	79.2%	0.0%	90.3%	73.1%

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Net premiums earned	\$ 36,803,251	\$ 27,521,081	\$ 106,828,895	\$ 81,099,387
Ceding commission revenue	(7,276)	3,448,774	37,400	10,760,087
Other income	322,705	248,824	617,257	754,943
Loss and loss adjustment expenses (1)	35,740,235	20,117,975	79,060,117	49,317,427
Acquisition costs and other underwriting expenses:				
Commission expense	8,201,935	8,036,298	24,711,115	23,652,765
Other underwriting expenses	6,562,743	6,346,846	19,722,705	19,434,110
Total acquisition costs and other underwriting expenses	14,764,678	14,383,144	44,433,820	43,086,875
Underwriting (loss) income	\$ (13,386,233)	\$ (3,282,440)	\$ (16,010,385)	\$ 210,115
Key Measures:				
Net loss ratio excluding the effect of catastrophes	64.0%	41.6%	62.5%	48.0%
Effect of catastrophe loss on net loss ratio (1)	33.1%	31.5%	11.5%	12.8%
Net loss ratio	97.1%	73.1%	74.0%	60.8%
Net underwriting expense ratio excluding the effect of catastrophes	39.3%	38.8%	41.0%	38.9%
Effect of catastrophe loss on net underwriting expense ratio	0.0%	0.0%	0.0%	0.0%
Net underwriting expense ratio	39.3%	38.8%	41.0%	38.9%
Net combined ratio excluding the effect of catastrophes	103.3%	80.4%	103.5%	86.9%
Effect of catastrophe loss on net combined ratio (1)	33.1%	31.5%	11.5%	12.8%
Net combined ratio	136.4%	111.9%	115.0%	99.7%
Reconciliation of net underwriting expense ratio:				
Acquisition costs and other underwriting expenses	\$ 14,764,678	\$ 14,383,144	\$ 44,433,820	\$ 43,086,875
Less: Ceding commission revenue	7,276	(3,448,774)	(37,400)	(10,760,087)
Less: Other income	(322,705)	(248,824)	(617,257)	(754,943)
	\$ 14,449,249	\$ 10,685,546	\$ 43,779,163	\$ 31,571,845
Net earned premium	\$ 36,803,251	\$ 27,521,081	\$ 106,828,895	\$ 81,099,387
Net Underwriting Expense Ratio	39.3%	38.8%	41.0%	38.9%

- (1) For the three months ended September 30, 2021 and 2020, includes the sum of net catastrophe losses and loss adjustment expenses of \$12,181,121 and \$8,664,997, respectively. For the nine months ended September 30, 2021 and 2020, includes the sum of net catastrophe losses and loss adjustment expenses of \$12,286,692 and \$10,375,113, respectively.

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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, 2021 and December 31, 2020:

Category	September 30, 2021					
	Cost or	Gross	Gross Unrealized Losses		Estimated	% of
	Amortized	Unrealized	Less than	More than	Fair	Estimated
	Cost	Gains	12	12	Value	Fair Value
			Months	Months		
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 2,002,935	\$ 3,945	\$ -	\$ -	\$ 2,006,880	1.3%
Political subdivisions of States, Territories and Possessions	14,384,428	259,721	(89,844)	-	14,554,305	9.5%
Corporate and other bonds Industrial and miscellaneous	88,059,505	7,391,053	(27,577)	-	95,422,981	62.3%
Residential mortgage and other asset backed securities	40,988,538	561,035	(243,639)	(858)	41,305,076	26.9%
Total	<u>\$ 145,435,406</u>	<u>\$ 8,215,754</u>	<u>\$ (361,060)</u>	<u>\$ (858)</u>	<u>\$ 153,289,242</u>	<u>100.0%</u>
	December 31, 2020					
	Cost or	Gross	Gross Unrealized Losses		Estimated	% of
	Amortized	Unrealized	Less than	More than	Fair	Estimated
	Cost	Gains	12	12	Value	Fair Value
			Months	Months		
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 3,020,710	\$ 29,190	\$ -	\$ -	\$ 3,049,900	1.9%
Political subdivisions of States, Territories and Possessions	5,287,561	355,541	-	-	5,643,102	3.6%
Corporate and other bonds Industrial and miscellaneous	108,573,422	11,634,123	(13,216)	-	120,194,329	76.3%
Residential mortgage and other asset backed securities (1)	28,163,891	617,368	(7,371)	(111,947)	28,661,941	18.2%
Total fixed-maturity securities	<u>\$ 145,045,584</u>	<u>\$ 12,636,222</u>	<u>\$ (20,587)</u>	<u>\$ (111,947)</u>	<u>\$ 157,549,272</u>	<u>100.0%</u>

- (1) 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 to the condensed consolidated financial statements). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from the FHLBNY credit line. As of December 31, 2020, the estimated fair value of the eligible investments was approximately \$11,391,000. KICO will retain all rights regarding all securities if pledged as collateral. As of December 31, 2020, there was no outstanding balance on the FHLBNY credit line.

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Equity Securities

The following table presents a breakdown of the cost and estimated fair value of, and gross gains and losses on, investments in equity securities as of September 30, 2021 and December 31, 2020:

Category	September 30, 2021				
	Cost	Gross Gains	Gross Losses	Estimated Fair Value	% of Estimated Fair Value
Equity Securities:					
Preferred stocks	\$ 21,934,910	\$ 1,123,310	\$ (157,431)	\$ 22,900,789	57.2%
Common stocks and exchange traded funds	15,610,331	1,620,343	(70,591)	17,160,083	42.8%
Total	<u>\$ 37,545,241</u>	<u>\$ 2,743,653</u>	<u>\$ (228,022)</u>	<u>\$ 40,060,872</u>	<u>100.0%</u>
Category	December 31, 2020				
	Cost	Gross Gains	Gross Losses	Estimated Fair Value	% of Estimated Fair Value
Equity Securities:					
Preferred stocks	\$ 18,097,942	\$ 853,277	\$ (426,942)	\$ 18,524,277	53.8%
Common stocks and exchange traded funds	14,473,224	1,820,512	(404,700)	15,889,036	46.2%
Total	<u>\$ 32,571,166</u>	<u>\$ 2,673,789</u>	<u>\$ (831,642)</u>	<u>\$ 34,413,313</u>	<u>100.0%</u>

Other Investments

The following table presents a breakdown of the cost and estimated fair value of, and gross gains on, our other investments as of September 30, 2021 and December 31, 2020:

Category	September 30, 2021			December 31, 2020		
	Cost	Gross Gains	Estimated Fair Value	Cost	Gross Gains	Estimated Fair Value
Other Investments:						
Hedge fund	\$ 3,999,381	\$ 3,379,730	\$ 7,379,111	\$ 1,999,381	\$ 1,369,245	\$ 3,368,626
Real estate limited partnership	-	-	-	150,000	-	150,000
Total	<u>\$ 3,999,381</u>	<u>\$ 3,379,730</u>	<u>\$ 7,379,111</u>	<u>\$ 2,149,381</u>	<u>\$ 1,369,245</u>	<u>\$ 3,518,626</u>

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Held-to-Maturity Securities

The following table presents a breakdown of the amortized cost and estimated fair value of, and gross unrealized gains and losses on, investments in held-to-maturity securities as of September 30, 2021 and December 31, 2020:

Category	September 30, 2021					
	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		
	Cost	Gains	Months	Months	Value	Value
U.S. Treasury securities	\$ 729,630	\$ 210,466	\$ -	\$ -	\$ 940,096	9.7%
Political subdivisions of States, Territories and Possessions	998,296	29,744	-	-	1,028,040	10.6%
Exchange traded debt	304,111	-	(16,611)	-	287,500	3.0%
Corporate and other bonds Industrial and miscellaneous	7,134,946	315,285	(6,363)	-	7,443,868	76.7%
Total	<u>\$9,166,983</u>	<u>\$ 555,495</u>	<u>\$ (22,974)</u>	<u>\$ -</u>	<u>\$9,699,504</u>	<u>100.0%</u>
Category	December 31, 2020					
	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		

Category	Cost	Gains	12		Value	Fair Value
			Months	Months		
U.S. Treasury securities	\$ 729,595	\$ 319,714	\$ -	\$ -	\$ 1,049,309	12.8%
Political subdivisions of States, Territories and Possessions	998,428	50,917	-	-	1,049,345	12.8%
Corporate and other bonds						
Industrial and miscellaneous	5,640,792	455,378	-	-	6,096,170	74.4%
Total	\$ 7,368,815	\$ 826,009	\$ -	\$ -	\$ 8,194,824	100.0%

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, 2021 and December 31, 2020 is shown below:

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Remaining Time to Maturity	September 30, 2021		December 31, 2020	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Less than one year	\$ 1,394,102	\$ 1,420,414	\$ -	\$ -
One to five years	1,205,500	1,301,973	2,598,193	2,777,936
Five to ten years	1,511,072	1,686,289	1,502,603	1,727,316
More than 10 years	5,056,309	5,290,828	3,268,019	3,689,572
Total	\$ 9,166,983	\$ 9,699,504	\$ 7,368,815	\$ 8,194,824

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, 2021 and December 31, 2020 as rated by Standard & Poor's (or, if unavailable from Standard & Poor's, then Moody's or Fitch):

Rating	September 30, 2021		December 31, 2020	
	Estimated Fair Market Value	Percentage of Fair Market Value	Estimated Fair Market Value	Percentage of Fair Market Value
U.S. Treasury securities	\$ 2,006,880	1.3%	\$ 3,049,900	1.9%
Corporate and municipal bonds				
AAA	2,417,351	1.6%	1,453,924	0.9%
AA	10,258,737	6.7%	3,572,164	2.3%
A	23,227,866	15.2%	23,989,619	15.2%
BBB	73,042,960	47.7%	95,814,824	60.9%
Non rated	1,030,372	0.7%	1,006,901	0.6%
Total corporate and municipal bonds	109,977,286	71.9%	125,837,432	79.9%
Residential mortgage backed securities				
AAA	2,000,580	1.3%	5,467,075	3.5%
AA	36,854,164	23.9%	18,865,749	12.0%
A	996,406	0.7%	2,451,635	1.6%
BBB	30,927	0.0%	50,276	0.0%
CCC	824,310	0.5%	960,042	0.6%
CC	-	0.0%	62,029	0.0%
C	-	0.0%	15,161	0.0%
D	58,117	0.0%	119,144	0.1%
Non rated	540,572	0.4%	670,829	0.4%
Total residential mortgage backed securities	41,305,076	26.8%	28,661,940	18.2%
Total	\$ 153,289,242	100.0%	\$ 157,549,272	100.0%

The table below summarizes the average yield by type of fixed-maturity security as of September 30, 2021 and December 31, 2020:

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Category	September 30, 2021	December 31, 2020
U.S. Treasury securities and obligations of U.S. government corporations and agencies	3.60%	2.59%
Political subdivisions of States, Territories and Possessions	2.99%	3.05%
Corporate and other bonds Industrial and miscellaneous	3.58%	3.52%
Residential mortgage backed securities	2.18%	1.18%
Total	3.17%	3.07%

The table below lists the weighted average maturity and effective duration in years on our fixed-maturity securities as of September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Weighted average effective maturity	5.7	5.2
Weighted average final maturity	10.2	6.6
Effective duration	4.8	4.7

Fair Value Consideration

Fair value is 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, 2021 and December 31, 2020, 81% 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, 2021 and December 31, 2020:

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Category	September 30, 2021								
	Less than 12 months			12 months or more			Total		
	Estimated Fair Value	Unrealized Losses	No. of Positions Held	Estimated Fair Value	Unrealized Losses	No. of Positions Held	Estimated Fair Value	Unrealized Losses	
Fixed-Maturity Securities:									
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ -	\$ -	-	\$ -	\$ -	-	\$ -	\$ -	-
Political subdivisions of States, Territories and Possessions	9,106,494	(89,844)	6	-	-	-	9,106,494	(89,844)	
Corporate and other bonds industrial and miscellaneous	1,071,100	(27,577)	1	-	-	-	1,071,100	(27,577)	
Residential mortgage and other asset backed securities	27,039,698	(243,639)	17	12,436	(858)	1	27,052,134	(244,497)	
Total fixed-maturity securities	<u>\$37,217,292</u>	<u>\$ (361,060)</u>	<u>24</u>	<u>\$ 12,436</u>	<u>\$ (858)</u>	<u>1</u>	<u>\$37,229,728</u>	<u>\$ (361,918)</u>	

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Category	December 31, 2020							
	Less than 12 months			12 months or more			Total	
	Estimated Fair Value	Unrealized Losses	No. of Positions Held	Estimated Fair Value	Unrealized Losses	No. of Positions Held	Estimated Fair Value	Unrealized Losses
Fixed-Maturity Securities:								
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ -	\$ -	-	\$ -	\$ -	-	\$ -	\$ -
Political subdivisions of States, Territories and Possessions	-	-	-	-	-	-	-	-
Corporate and other bonds industrial and miscellaneous	1,006,901	(13,216)	1	-	-	-	1,006,901	(13,216)
Residential mortgage and other asset backed securities	6,137,522	(7,371)	5	3,735,732	(111,947)	10	9,873,254	(119,318)
Total fixed-maturity securities	\$7,144,423	\$ (20,587)	6	\$3,735,732	\$ (111,947)	10	\$10,880,155	\$ (132,534)

There were 25 securities at September 30, 2021 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 16 securities at December 31, 2020 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, 2021, 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, 2021, KICO paid dividends of \$3,500,000 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. KICO currently does not have any securities pledged to FHLBNY, as such, there were no borrowings under this facility during the nine months ended September 30, 2021 and 2020.

As of September 30, 2021, invested assets and cash in our holding company totaled approximately \$2,341,000. 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,	2021	2020
Cash flows provided by (used in):		

Operating activities	\$ 29,079,787	\$ (9,465,006)
Investing activities	(9,297,954)	3,927,739
Financing activities	(3,137,487)	(2,466,115)
Net increase (decrease) in cash and cash equivalents	16,644,346	(8,003,382)
Cash and cash equivalents, beginning of period	19,463,742	32,391,485
Cash and cash equivalents, end of period	\$ 36,108,088	\$ 24,388,103

Net cash provided by operating activities was \$29,080,000 in Nine Months 2021 as compared to \$9,465,000 used in operating activities in Nine Months 2020. The \$38,545,000 increase in cash flows provided by operating activities in Nine Months 2021 was primarily the result of an increase in cash arising from net fluctuations in assets and liabilities, partially offset by net loss (adjusted for non-cash items) of \$18,247,000. The net fluctuations in assets and liabilities are related to operating activities of KICO as affected by growth or declines in its operations, payments on claims and other changes, which are described above.

Net cash used in investing activities was \$9,298,000 in Nine Months 2021 compared to \$3,928,000 provided by investing activities in Nine Months 2020. The \$13,226,000 increase in net cash used in investing activities was the result of a \$23,660,000 increase in the acquisition of invested assets, partially offset by an \$11,119,000 increase in disposals of invested assets in Nine Months 2021.

Net cash used in financing activities was \$3,137,000 in Nine Months 2021 compared to \$2,466,000 used in Nine Months 2020. The \$671,000 increase in net cash used in financing activities was attributable to a \$870,000 increase in purchases of treasury stock offset by a \$256,000 reduction in dividends paid in Nine Months 2021 compared to Nine Months 2020.

Reinsurance

Effective December 15, 2019, we entered into a quota share reinsurance treaty for our personal lines business covering the period from December 15, 2019 through December 30, 2020 ("2019/2020 Treaty"). Effective December 31, 2020 the 2019/2020 Treaty expired on a cut off basis; this treaty was not renewed. In addition to the 2019/2020 Treaty, our personal lines quota share reinsurance treaty in effect for Three Months 2020 also included the run-off of the personal lines quota share treaty ("2018/2019 Treaty") that expired on June 30, 2019. The run-off covered the period from July 1, 2019 through June 30, 2020 ("2019/2020 Run-off"). We entered into new excess of loss and catastrophe reinsurance treaties effective July 1, 2021. Effective October 18, 2021, we entered into a stub catastrophe reinsurance treaty covering the period from October 18, 2021 through December 31, 2021. The treaty provides reinsurance coverage for catastrophe losses of \$5,000,000 in excess of \$5,000,000. Losses from freeze are excluded from the treaty. Material terms for our reinsurance treaties in effect for the treaty years shown below are as follows:

Line of Business	Treaty Year	
	December 15, 2019 to December 30, 2020	
Personal Lines:		
Homeowners, dwelling fire and and canine legal liability		
Quota share treaty:		
Percent ceded		25%

Line of Business	Treaty Year			
	July 1, 2021 to June 30, 2022	December 31, 2020 to June 30, 2021	July 1, 2020 to December 30, 2020	December 15, 2019 to June 30, 2020
Personal Lines:				
Homeowners, dwelling fire and and canine legal liability				
Quota share treaty:				
Risk retained on initial \$1,000,000 of losses (7)	\$ 1,000,000	\$ 1,000,000	\$ 750,000	\$ 750,000
Losses per occurrence subject to quota share reinsurance coverage	None (7)	None (7)	\$ 1,000,000	\$ 1,000,000
Expiration date	NA (7)	NA (7)	December 30, 2020	December 30, 2020
Excess of loss coverage and facultative facility coverage (1)	\$ 8,000,000 in excess of \$ 1,000,000	\$ 8,000,000 in excess of \$ 1,000,000	\$ 8,000,000 in excess of \$ 1,000,000	\$ 9,000,000 in excess of \$ 1,000,000
Total reinsurance coverage per occurrence (7)	\$ 8,000,000	\$ 8,000,000	\$ 8,250,000	\$ 9,250,000
Losses per occurrence subject to reinsurance coverage	\$ 9,000,000	\$ 9,000,000	\$ 9,000,000	\$ 10,000,000
Expiration date (7)	June 30, 2022	June 30, 2021	June 30, 2021	June 30, 2020
Catastrophe Reinsurance:				
Initial loss subject to personal lines quota share treaty	None (7)	None (7)	\$ 7,500,000	\$ 7,500,000
Risk retained per catastrophe occurrence (2) (7)	\$ 10,000,000	\$ 10,000,000	\$ 8,125,000	\$ 5,625,000
Catastrophe loss coverage in excess of quota share coverage (3) (7)	\$ 490,000,000	\$ 475,000,000	\$ 475,000,000	\$ 602,500,000
Catastrophe stub coverage for the period from October 18, 2021 through December 31, 2021 (8)	\$ 5,000,000 in excess of \$ 5,000,000	NA	NA	NA
Reinstatement premium protection (4) (5) (6)	Yes	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 through June 30, 2020. For the period July 1, 2020 through June 30, 2022, direct losses are covered up to \$9,000,000.
- (2) Plus losses in excess of catastrophe coverage. For the period July 1, 2020 through December 30, 2020, there was no reinsurance coverage for the \$2,500,000 gap between quota share limit of \$7,500,000 and first \$10,000,000 layer of catastrophe coverage (see note (7) below).
- (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.

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- (4) For the period July 1, 2019 through June 30, 2020, reinstatement premium protection for \$292,500,000 of catastrophe coverage in excess of \$7,500,000.
- (5) For the period July 1, 2020 through June 30, 2021, reinstatement premium protection for \$70,000,000 of catastrophe coverage in excess of \$10,000,000.
- (6) For the period July 1, 2021 through June 30, 2022, reinstatement premium protection for \$70,000,000 of catastrophe coverage in excess of \$10,000,000.
- (7) The personal lines quota share (homeowners, dwelling fire and canine legal liability) expired on December 30, 2020; reinsurance coverage from December 31, 2020 through June 30, 2022 is only for excess of loss and catastrophe reinsurance.
- (8) Excludes freeze and freeze related claims.

Line of Business	Treaty Year		
	July 1, 2021 to June 30, 2022	July 1, 2020 to June 30, 2021	July 1, 2019 to June 30, 2020

Personal Lines:

Personal Umbrella

Quota share treaty:

Percent ceded - first \$1,000,000 of coverage	90%	90%	90%
Percent ceded - excess of \$1,000,000 of coverage	95%	95%	100%
Risk retained	\$ 300,000	\$ 300,000	\$ 100,000
Total reinsurance coverage per occurrence	\$ 4,700,000	\$ 4,700,000	\$ 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, 2022	June 30, 2021	June 30, 2020

Commercial Lines (1):

General liability commercial policies

Quota share treaty		None	None
Risk retained	\$ 750,000	\$ 750,000	
Excess of loss coverage above risk retained	\$ 3,750,000	\$ 3,750,000	
		in excess of	in excess of
	\$ 750,000	\$ 750,000	
Total reinsurance coverage per occurrence	\$ 3,750,000	\$ 3,750,000	
Losses per occurrence subject to reinsurance coverage	\$ 4,500,000	\$ 4,500,000	

Commercial Umbrella

Quota share treaty		None	None
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(1) Coverage on all commercial lines policies expired in September 2020; reinsurance coverage is based on treaties in effect on the date of loss.

Inflation

Premiums are established before we know the amount of losses and loss adjustment expenses or the extent to which inflation may affect such amounts. We attempt to anticipate the potential impact of inflation in establishing our reserves, especially as it relates to medical and hospital rates where historical inflation rates have exceeded the general level of inflation. Inflation in excess of the levels we have assumed could cause loss and loss adjustment expenses to be higher than we anticipated, which would require us to increase reserves and reduce earnings.

Fluctuations in rates of inflation also influence interest rates, which in turn impact the market value of our investment portfolio and yields on new investments. Operating expenses, including salaries and benefits, generally are impacted by inflation.

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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.

Outlook

The impacts of COVID-19 and related economic conditions on our results are highly uncertain and outside our control. The scope, duration and magnitude of the direct and indirect effects of COVID-19 are evolving rapidly and in ways that are difficult or impossible to anticipate. The impact of COVID-19 on our results for the period ended September 30, 2021 may not be indicative of its impact on our results for the remainder of 2021. For additional information on the risks posed by COVID-19, see “The impact of COVID-19 and related risks could materially affect our results of operations, financial position and/or liquidity” included in Part II, Item 1A— “Risk Factors” in this Quarterly Report.

Our net premiums earned may be impacted by a number of factors. Net premiums earned are a function of net written premium volume. Net written premiums comprise both renewal business and new business and are recognized as earned premium over the term of the underlying policies. Net written premiums from both renewal and new business are impacted by competitive market conditions as well as general economic conditions. As a result of COVID-19, economic conditions in the United States rapidly deteriorated. The decreased levels of economic activity have negatively impacted, and may continue to negatively impact, premium volumes generated by new business. We began to experience this impact in March 2020 and it became more significant in the second and third quarters of 2020. We also expect this impact will further persist but to a lesser extent for the remainder of 2021, but the degree of the impact will depend on the extent and duration of the economic contraction and could be material. We have also made underwriting changes to emphasize profitability over growth and have culled out the type of risks that do not generate an acceptable level of return. This action has led, and may continue to lead, to a slowdown in premium growth, particularly in new business.

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 Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Based on this evaluation, our

Chief Executive Officer and Principal Financial Officer have concluded that, as of September 30, 2021, our disclosure controls and procedures were: (i) effective 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) effective 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 Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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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 Principal Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2021.

s of the date of this report, there have been no misstatements identified. nd the g that were assessed as a material weakness

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recently completed fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitation on Effectiveness of Controls

Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Principal Financial Officer, and effected by the board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP including those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

For a discussion of the Company’s potential risks and uncertainties, see Part I, Item 1A— “Risk Factors” and Part II, Item 7— “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s 2020 Annual Report filed with the SEC, and Part I, Item 2 —“Management’s Discussion and Analysis of Financial Condition and Results of Operations” herein, in each case as updated by the Company’s periodic filings with the SEC. There have been no material changes to the risk factors disclosed in Part I, Item 1A of the Company’s 2020 Annual Report.

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

(a) None.

(b) Not applicable.

(c) The following table sets forth certain information with respect to purchases of common stock made by us during the quarter ended September 30, 2021:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(2)
7/1/21 – 7/31/21	19,190	\$ 7.66	19,190	1,337,302
8/1/21 – 8/31/21	36,699	\$ 7.00	36,699	1,298,617

9/1/21 – 9/30/21	32,440	\$	6.92	32,440	1,264,826
Total	<u>88,329</u>	\$	7.11	<u>88,329</u>	<u>1,264,826</u>

- (1) Purchases were made by us in open market transactions.
- (2) Up to \$10,000,000 of common stock may be purchased pursuant to our repurchase plan announced on March 18, 2021; the maximum number of shares shown is based on the September 30, 2021 closing stock price.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

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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 \(incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on November 9, 2009\).](#)

[31\(a\) Rule 13a-14\(a\)/15d-14\(a\) Certification of Chief Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)

[31\(b\) 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](#)

[32+ Certification of Chief Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

101.INS XBRL Instance Document

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.

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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.

Dated: November 15, 2021

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

Dated: November 15, 2021

By: /s/ Richard Swartz
Richard Swartz
Principal 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 15, 2021

/s/ Barry B. Goldstein

Barry B. Goldstein
Chief Executive Officer

CERTIFICATION

I, Richard Swartz, 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 15, 2021

/s/ Richard Swartz
Richard Swartz
Principal Financial Officer

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

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, 2021 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 15, 2021

/s/ Barry B. Goldstein

Barry B. Goldstein

Chief Executive Officer

/s/ Richard Swartz

Richard Swartz

Principal Financial Officer