

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

FORM 10-K

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019
OR

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

Commission File Number 0-1665

KINGSTONE COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Delaware(State or other jurisdiction of incorporation or organization)

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

15 Joys Lane

Kingston, NY 12401

(Address of principal executive offices)

(845) 802-7900

(Registrant's telephone number, including area code)

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

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

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

None
(Title of each class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

As of June 30, 2019, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$84,442,572 based on the closing sale price as reported on the Nasdaq Global Select Market. As of March 9, 2020, there were 10,803,770 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

INDEX

	Page No.
Forward-Looking Statements	2
<u>PART I</u>	
<u>Item 1.</u> Business.	3
<u>Item 1A.</u> Risk Factors.	17
<u>Item 1B.</u> Unresolved Staff Comments.	23
<u>Item 2.</u> Properties.	23
<u>Item 3.</u> Legal Proceedings.	23
<u>Item 4.</u> Mine Safety Disclosures.	23
<u>PART II</u>	
<u>Item 5.</u> Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.	24
<u>Item 6.</u> Selected Financial Data.	24
<u>Item 7.</u> Management’s Discussion and Analysis of Financial Condition and Results of Operations.	25
<u>Item 7A.</u> Quantitative and Qualitative Disclosures About Market Risk.	48
<u>Item 8.</u> Financial Statements and Supplementary Data.	48
<u>Item 9.</u> Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.	48
<u>Item 9A.</u> Controls and Procedures.	48
<u>Item 9B.</u> Other Information.	50
<u>PART III</u>	
<u>Item 10.</u> Directors, Executive Officers and Corporate Governance.	51
<u>Item 11.</u> Executive Compensation.	54
<u>Item 12.</u> Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	59
<u>Item 13.</u> Certain Relationships and Related Transactions, and Director Independence.	61
<u>Item 14.</u> Principal Accountant Fees and Services.	62
<u>PART IV</u>	
<u>Item 15.</u> Exhibits and Financial Statement Schedules.	63
<u>Item 16.</u> Form 10-K Summary.	64
Signatures	

PART I

Forward-Looking Statements

This Annual Report on Form 10-K (the “Annual 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 Annual 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 this Annual Report under “Factors That May Affect Future Results and Financial Condition.”

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.

ITEM 1. BUSINESS.

(a) Business Development

General

As used in this Annual Report, references to the “Company,” “we,” “us,” or “our” refer to Kingstone Companies, Inc. (“Kingstone”) and its subsidiaries.

We offer property and casualty insurance products to individuals through our wholly owned subsidiary, Kingstone Insurance Company (“KICO”), domiciled in the state of New York. KICO is a licensed property and casualty insurance company in New York, New Jersey, Connecticut, Massachusetts, Pennsylvania, Rhode Island, 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 in 2019 KICO wrote 85.0% of its direct written premiums in New York, we believe that New Jersey, Connecticut, Massachusetts, and Rhode Island will represent an increasing portion of the total over the coming years.

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

Recent Developments

Developments During 2019

- *Quota Share Reinsurance*

Effective December 15, 2019, KICO entered into a 25% quota share reinsurance treaty for its personal lines business, which primarily consists of homeowners’ policies, covering the period from December 15, 2019 through December 31, 2020 (“2019/2020 Treaty”).

In addition to the 2019/2020 Treaty, KICO’s quota share reinsurance treaties in effect during the years ended December 31, 2019 and 2018 for its personal lines business, were covered under a treaty covering a two-year period from July 1, 2017 through June 30, 2019 (“2017/2019 Treaty”). Effective July 1, 2019, the 2017/2019 Treaty expired on a run-off basis.

- *Catastrophe Reinsurance Coverage*

Effective July 1, 2019, KICO increased the top limit of its catastrophe reinsurance coverage from \$450,000,000 to \$610,000,000, which, at the time, equated to more than a 1-in-250 year storm event according to the primary industry catastrophe model that we follow.

- *Expansion into Connecticut*

In the first quarter of 2019 KICO’s homeowners insurance product was launched in Connecticut.

- *Exit Commercial Liability Business*

In July 2019, due to the poor performance of our commercial liability business, we made the decision to no longer underwrite commercial lines or commercial umbrella risks.

Developments During 2018

- *Expanded Licensing; Connecticut, Maine and New Hampshire Expansion*

In 2018, KICO continued to expand its regional capabilities by obtaining a license to write insurance policies in Connecticut, Maine and New Hampshire. Also in 2018, KICO's homeowners insurance product was launched in Massachusetts.

- *Reduced Reliance on Quota Share Reinsurance*

Effective July 1, 2018, KICO reduced the ceding percentage for its personal lines quota share reinsurance treaty from 20% to 10%.

- *Increased Catastrophe Reinsurance Coverage*

Effective July 1, 2018, KICO increased the top limit of its catastrophe reinsurance coverage from \$320,000,000 to \$450,000,000, which at the time, equated to more than a 1-in-250 year storm event according to the primary industry catastrophe model that we follow.

(b) Business

Property and Casualty Insurance

Overview

Property and casualty insurance companies provide policies in exchange for premiums paid by their customers (the "insureds"). An insurance policy is a contract between the insurance company and its insureds where the insurance company agrees to pay for losses that are covered under the contract. Such contracts are subject to legal interpretation by courts, sometimes involving legislative rulings and/or arbitration. Property insurance generally covers the financial consequences of accidental losses to the insured's property, such as a home and the personal property in it, or a business owner's building, inventory and equipment. Casualty insurance (also referred to as liability insurance) generally covers the financial consequences related to the legal liability of an individual or an organization resulting from negligent acts and omissions that cause bodily injury and/or property damage to a third party. Claims for property coverage generally are reported and settled in a relatively short period of time, whereas those for casualty coverage may take many years to settle.

We generate revenues from earned premiums, ceding commissions from quota share reinsurance, net investment income generated from our investment portfolio, and net realized gains and losses on investment securities. We also collect a variety of policy fees including installment fees, reinstatement fees, and non-sufficient fund fees related to situations involving extended premium payment plans. Earned premiums represent premiums received from insureds, which are recognized as revenue over the period of time that coverage is provided (i.e., ratably over the life of the policy). All of our policies are 12 month policies; therefore, a significant period of time can elapse between the receipt of insurance premiums and the payment of claims. During this time, KICO invests the premiums, earning investment income and generating net realized and unrealized gains and losses on associated investments.

Insurance companies incur a significant amount of their total expenses from insured losses, which are commonly referred to as claims. In settling insured losses, various loss adjustment expenses (“LAE”) are incurred such as insurance adjusters’ fees and legal expenses. In addition, insurance companies incur policy acquisition expenses, such as commissions paid to producers, premium taxes, and other expenses related to the underwriting process, including their employees’ compensation and benefits.

The key measure of relative underwriting performance for an insurance company is the combined ratio. An insurance company’s combined ratio is calculated by taking the ratio of incurred loss and LAE to earned premiums (the “loss and LAE ratio”) and adding it to the ratio of policy acquisition and other underwriting expenses to earned premiums (the “expense ratio”). A combined ratio under 100% indicates that an insurance company is generating an underwriting profit prior to the impact of investment income. After considering investment income and investment gains or losses, insurance companies operating at a combined ratio of greater than 100% can also be profitable.

Business; Strategy

We are a multi-line regional property and casualty insurance company writing business exclusively through retail and wholesale agents and brokers (“producers”) appointed by our wholly owned subsidiary, KICO. We are licensed to write insurance policies in New York, New Jersey, Connecticut, Maine, Massachusetts, New Hampshire, Pennsylvania and Rhode Island. We are actively writing business in New York, New Jersey, Rhode Island, Massachusetts and Connecticut.

Additionally, through our subsidiary, Cosi, a multi-state licensed general agency, we access alternative distribution channels. Through Cosi, we have the opportunity to partner with name-brand carriers and access nationwide insurance agencies. See “Distribution” below for a discussion of our distribution channels.

We seek to deliver an attractive return on capital and to provide consistent earnings growth through underwriting profits and income from our investment portfolio. Our goal is to allocate capital efficiently to those lines of business that generate sustainable underwriting profits and to avoid lines of business for which an underwriting profit is not likely. Our strategy is to be the preferred multi-line property and casualty insurance company for selected producers in the geographic markets in which we operate. We believe producers place profitable business with us because we provide excellent, consistent service to insureds and claimants. Producers also value our financial stability coupled with competitive rate and commission structures.

Our principal objectives are to grow profitably while managing risk through prudent use of reinsurance in order to strengthen our capital base. We generate underwriting income through adequate pricing of insurance policies and by effectively managing our other underwriting and operating expenses. We are pursuing profitable growth through existing producers in existing markets, by developing new geographic markets and producer relationships, and by introducing niche products that are relevant to our producers and insureds.

For the year ended December 31, 2019, our gross written premiums totaled \$171.2 million, an increase of 16.7% from the \$146.7 million in gross written premiums for the year ended December 31, 2018.

Product Lines

Our product lines include the following:

Personal lines - Our largest line of business is personal lines, consisting of homeowners and dwelling fire multi-peril, cooperative/condominiums, renters, and personal umbrella policies. Personal lines policies accounted for 87.6% of our gross written premiums for the year ended December 31, 2019.

Livery physical damage - We write for-hire vehicle physical damage only policies for livery and car service vehicles and taxicabs, primarily based in New York City. These policies insure only the physical damage portion of insurance for such vehicles, with no liability coverage included. These policies accounted for 6.2% of our gross written premiums for the year ended December 31, 2019.

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. Further, we offered commercial umbrella policies written above our supporting commercial lines policies. In July 2019, due to the poor performance of these lines, we made the decision to no longer underwrite commercial lines or commercial umbrella risks. In force policies for these lines will be non-renewed at the end of their current annual terms. Commercial lines policies accounted for 5.9% of our gross written premiums for the year ended December 31, 2019.

Other - We write canine legal liability policies and have a small participation in mandatory state joint underwriting associations. These policies accounted for 0.3% of our gross written premiums for the year ended December 31, 2019.

Our Competitive Strengths

History of Growing Our Profitable Operations

KICO has been in operation in the State of New York for over 130 years. We have consistently grown the amount of profitable business that we write by introducing new products, increasing volume written with our selected producers in existing markets, and developing new producer relationships and markets. KICO has earned an underwriting profit in nine of the past ten years, including in 2012 and 2013 when our financial results were adversely impacted by Superstorm Sandy. The extensive heritage of our insurance company subsidiary and our commitment to the markets in which we operate is a competitive advantage with producers and insureds.

Strong Producer Relationships

Within our selected producers’ offices, we compete with other property and casualty insurance carriers available to those producers. We carefully select the producers that distribute our insurance policies and continuously monitor and evaluate their performance. We believe our insurance producers value their relationships with us because we provide excellent, consistent personal service coupled with competitive rates and commission levels. We have consistently been rated by insurance producers as above average in the important areas of underwriting, claims handling and service. In the biennial performance surveys conducted by the Professional Insurance Agents of New York and New Jersey of its membership since 2010, KICO was rated as one of the top performing insurance companies in New York, twice ranking as the top rated carrier among all those surveyed. Our relationship with selected producers was further strengthened by the A.M. Best upgrade to a financial strength rating of A- (Excellent) in April 2017. This has allowed us to provide many producers with an A- rated carrier option that was not previously available to them in the markets where we operate.

We offer our selected producers access to a variety of personal lines and specialty products, including some that are unique to us. We provide a multi-policy discount on homeowners policies in order to attract and retain more of this multi-line business. We have had a consistent presence in the New York market and our producers value the longevity of the relationship. We believe that the excellent service provided to our selected producers, our broad product offerings, and our consistent prices and financial stability provide a strong foundation for continued profitable growth.

Sophisticated Underwriting and Risk Management Practices

We believe that a significant underwriting advantage exists due to our local market presence and expertise. Our underwriting process evaluates and screens out certain risks based on property reports, individual insurance scoring, and information collected from physical property inspections and driving records. We maintain certain policy exclusions that reduce our exposure to risks that can create severe losses. We target a preferred risk profile in order to reduce adverse selection from risks seeking the lowest premiums and minimal coverage levels.

Our underwriting procedures, premium rates and policy terms support the underwriting profitability of our personal lines policies. We apply premium surcharges for certain coastal properties and maintain deductibles for hurricane-prone exposures in order to provide an appropriate premium for the risk of loss. We manage coastal risk exposure through use of individual catastrophe risk scoring and prudent use of reinsurance.

Effective Utilization of Reinsurance

Our reinsurance treaties allow us to limit our exposure to the financial impact of catastrophe losses and to reduce our net liability on individual risks. Our reinsurance program is structured to enable us to grow our premium volume while maintaining regulatory capital and other financial ratios within thresholds used for regulatory oversight purposes.

Our reinsurance program also provides income from ceding commissions earned pursuant to quota share reinsurance contracts. The income we earn from ceding commissions typically exceeds our fixed operating costs, which consist of other underwriting expenses. Quota share reinsurance treaties transfer a portion of the profit (or loss) associated with the subject insurance policies to the reinsurers.

Scalable, Low-Cost Operations

We focus on efficiently managing our expenses, and invest in tools and processes that improve the effectiveness of underwriting risks and processing claims. We evaluate the costs and benefits of each new tool or process in order to achieve optimal results. While the majority of our policies are written for risks in downstate New York, our Kingston, New York location provides a low-cost operating environment.

We continue to invest in improving our online application and quoting systems for our personal lines products. We have leveraged a paperless workflow management and document storage tool that has improved efficiency and reduced costs. We provide an online payment portal that allows insureds to make payments and to view policy information for all of our products in one location. Our ability to control the growth of operating and other expenses while expanding our operations and growing revenue is a key component of our business model and is important to our financial success.

Underwriting and Claims Management Philosophy

Our underwriting philosophy is to target niche segments for which we have detailed expertise and can take advantage of market conditions. We monitor results on a regular basis and our selected producers are reviewed by management on at least a quarterly basis.

We believe that our rates are appropriately competitive with other carriers in our target markets. We do not seek to grow by competing based solely upon price. We seek to develop long-term relationships with our selected producers who understand and appreciate the path we have chosen. We carefully underwrite our business utilizing industry claims databases, insurance scoring reports, physical inspection of risks and other individual risk underwriting tools. We write homeowners and dwelling fire business in coastal markets and are cognizant of our exposure to hurricanes. We have mitigated this risk through appropriate catastrophe reinsurance and application of hurricane deductibles. We handle claims fairly while ensuring that coverage provisions and exclusions are properly applied. Our claims and underwriting expertise supports our ability to grow our profitable business.

Distribution

We generate business through our relationships with over 600 producers. We carefully select our producers by evaluating numerous factors such as their need for our products, premium production potential, loss history with other insurance companies that they represent, product and market knowledge, and agency size. We only distribute through agents and have never sought to distribute our products direct to the consumer. We monitor and evaluate the performance of our producers through periodic reviews of volume and profitability. Our senior executives are actively involved in managing our producer relationships.

Each producer is assigned to a staff underwriter and the producer can call that underwriter directly on any matter. We believe that the close relationship and personal service received from their underwriters is a principal reason producers place their business with us. Our producers have access to a KICO website portal that provides them the ability to quote risks for various products and to review policy forms and underwriting guidelines for all lines of business. We send out frequent "Producer Grams" in order to inform our producers of updates at KICO. In addition, we have an active Producer Council, made up of 11 active producers, to advise us on market developments; and we have at least one annual meeting with all of our producers.

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

(\$ in thousands) Direct Written Pemiums	Year ended December 31, 2019	
	Amount	Percent
Core Independent	\$ 120,625	80.6%
Expansion Independent (1)	24,253	16.2%
Alternative Distribution through Cosi	4,799	3.2%
Total	\$ 149,677	100.0%

(1) Outside of New York

For the year ended December 31, 2019, Alternative Distribution made up 3.2% of direct written premiums for our homeowners and dwelling fire components of personal lines.

Competition; Market

The insurance industry is highly competitive. We constantly assess and make projections of market conditions and appropriate prices for our products, but we cannot fully know our profitability until all claims have been reported and settled.

Our policyholders are located primarily in the downstate regions of New York State, but we are actively growing into other Northeast markets, including New Jersey and Rhode Island during 2017 followed by Massachusetts in 2018 and Connecticut in 2019. In addition, we are licensed to write insurance policies in Maine, New Hampshire and Pennsylvania. These homeowners markets align well with the niche markets that have generated profitable results in New York, and we believe that our market expertise can be effectively utilized in new markets.

In 2018, KICO was the 14th largest writer of homeowners insurance in the State of New York, according to data compiled by SNL Financial LLC. Based on the same data, in 2018, we had a 1.45% market share for this business. We compete with large national carriers as well as regional and local carriers in the property and casualty marketplace in New York and other states. We believe that many national and regional carriers have chosen to limit their rate of premium growth or to decrease their presence in Northeastern states due to the relatively high coastal population and associated catastrophe risk that exists in the region.

Given present market conditions, we believe that we have the opportunity to continue expanding the size of our personal lines business in New York, New Jersey, and other northeastern states in which we are licensed.

Loss and Loss Adjustment Expense Reserves

We are required to establish reserves for unpaid losses, including reserves for claims loss adjustment expenses (“LAE”), which represent the expenses of settling and adjusting those claims. These reserves are balance sheet liabilities representing estimates of future amounts required to pay losses and loss expenses for claims that have occurred at or before the balance sheet date, whether already known to us or not yet reported. We establish these reserves after considering all information known to us as of the date they are recorded.

Loss reserves fall into two categories: case reserves for reported losses and LAE associated with specific reported claims, and reserves for losses and LAE that are incurred but not reported (“IBNR”). We establish these two categories of loss reserves as follows:

Reserves for reported losses - When a claim is received, we establish a case reserve for the estimated amount of its ultimate settlement and its estimated loss expenses. We establish case reserves based upon the known facts about each claim at the time it is received and we may subsequently adjust case reserves as additional facts and information about the claim develops.

IBNR reserves - We also estimate reserves for loss and LAE amounts incurred but not reported (“IBNR”). IBNR reserves are calculated in bulk as an estimate of ultimate losses and LAE less reported losses and LAE. There are two types of IBNR; the first is a provision for claims that have occurred but are not yet reported or known. We refer to this as ‘Pure’ IBNR, and due to the fact that we write primarily quickly reported property lines of business, this type of IBNR does not make up a large portion of KICO’s total IBNR. The second type of IBNR is a provision for expected future development on known claims, from the evaluation date until the time claims are settled and closed. We refer to this as ‘Case Development’ IBNR and it makes up the majority of the IBNR that KICO records. Ultimate losses driving the determination of appropriate IBNR levels are projected by using generally accepted actuarial techniques.

The liability for loss and LAE represents our best estimate of the ultimate cost of all reported and unreported losses that are unpaid as of the balance sheet evaluation date. The liability for loss and LAE is estimated on an undiscounted basis, using individual case-based valuations, statistical analyses, and various actuarial procedures. The projection of future claim payments and reporting patterns is based on an analysis of our historical experience, supplemented by analyses of industry loss data. We believe that the reserves for loss and LAE are adequate to cover the ultimate cost of losses and claims to date. However, because of uncertainty from various sources, including changes in claims settlement patterns and handling procedures, litigation trends, judicial decisions, and economic conditions, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such liabilities at the balance sheet date. As adjustments to these estimates become necessary, they are reflected in the period in which the estimates are changed. Because of the nature of the business historically written, we believe that we have limited exposure to asbestos and environmental claim liabilities.

We engage an independent external actuarial specialist (the ‘Appointed Actuary’) to opine on our recorded statutory reserves. The Appointed Actuary estimates a range of ultimate losses, along with a range and recommended central estimate of IBNR reserve amounts. Our carried IBNR reserves are based on an internal actuarial analysis and reflect management’s best estimate of unpaid loss and LAE liabilities, and fall within the range of those determined as reasonable by the Appointed Actuary.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Principal Revenue and Expense Items” in Item 7 of this Annual Report and Note 2 and Note 11 in the accompanying Consolidated Financial Statements for additional information and details regarding loss and LAE reserves.

Reconciliation of Loss and Loss Adjustment Expenses

The table below shows the reconciliation of loss and LAE on a gross and net basis, reflecting changes in losses incurred and paid losses:

	Years ended	
	December 31,	
	2019	2018
Balance at beginning of period	\$ 56,197,106	\$ 48,799,622
Less reinsurance recoverables	(15,671,247)	(16,748,908)
Net balance, beginning of period	40,525,859	32,050,714
Incurred related to:		
Current year	79,044,301	57,143,077
Prior years	11,138,023	1,152,128
Total incurred	90,182,324	58,295,205
Paid related to:		
Current year	42,861,207	34,025,387
Prior years	23,076,588	15,794,673
Total paid	65,937,795	49,820,060
Net balance at end of period	64,770,387	40,525,859
Add reinsurance recoverables	15,728,224	15,671,247
Balance at end of period	\$ 80,498,611	\$ 56,197,106

Our claims reserving practices are designed to set reserves that, in the aggregate, are adequate to pay all claims at their ultimate settlement value.

Loss and Loss Adjustment Expenses Development

The table below shows the net loss development of reserves held as of each calendar year-end from 2009 through 2019.

The first section of the table reflects the changes in our loss and LAE reserves after each subsequent calendar year of development. The table displays the re-estimated values of incurred losses and LAE at each succeeding calendar year-end, including payments made during the years indicated. The second section of the table shows by year the cumulative amounts of loss and LAE payments, net of amounts recoverable from reinsurers, as of the end of each succeeding year. An example with respect to the net loss and LAE reserves of \$6,001,000 as of December 31, 2009 is as follows. By December 31, 2011 (two years later), \$3,992,000 had actually been paid in settlement of the claims that relate to liabilities as of December 31, 2009. The re-estimated ultimate reserves for those claims as of December 31, 2011 (two years later) had grown to \$6,393,000.

The “cumulative redundancy (deficiency)” represents, as of December 31, 2019, the difference between the latest re-estimated liability and the amounts as originally estimated. A redundancy means that the original estimate was higher than the current estimate. A deficiency means that the current estimate is higher than the original estimate.

(in thousands of \$)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Reserve for loss and loss adjustment expenses, net of reinsurance recoverables	6,001	7,280	8,520	12,065	17,139	21,663	23,170	25,960	32,051	40,526	64,770
Net reserve estimated as of One year later	6,235	7,483	9,261	13,886	18,903	21,200	23,107	25,899	33,203	51,664	
Two years later	6,393	8,289	11,022	16,875	18,332	21,501	24,413	26,970	42,723		
Three years later	6,486	9,170	12,968	16,624	18,687	22,576	25,509	33,298			
Four years later	7,182	10,128	12,552	16,767	19,386	23,243	28,638				
Five years later	7,766	9,925	12,440	16,985	19,449	25,442					
Six years later	7,602	9,932	12,367	16,959	20,265						
Seven years later	7,615	9,779	12,307	17,198							
Eight years later	7,455	9,676	12,317								
Nine years later	7,406	9,736									
Ten years later	7,465										
Net cumulative redundancy (deficiency)	(1,464)	(2,456)	(3,797)	(5,133)	(3,126)	(3,779)	(5,468)	(7,338)	(10,672)	(11,138)	
(in thousands of \$)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Cumulative amount of reserve paid, net of reinsurance recoverable through											
One year later	2,307	3,201	3,237	4,804	6,156	8,500	8,503	9,900	15,795	23,075	
Two years later	3,992	4,947	5,661	8,833	10,629	12,853	14,456	17,187	26,168		
Three years later	4,659	6,199	8,221	11,873	13,571	16,564	19,533	23,484			
Four years later	5,238	7,737	10,100	13,785	16,166	19,838	22,816				
Five years later	5,997	8,585	10,903	15,479	17,262	21,976					
Six years later	6,562	8,941	11,417	15,882	18,265						
Seven years later	6,749	9,275	11,725	16,152							
Eight years later	7,022	9,559	11,864								
Nine years later	7,298	9,629									
Ten years later	7,362										
Net reserve - December 31,	6,001	7,280	8,520	12,065	17,139	21,663	23,170	25,960	32,051	40,526	64,770
* Reinsurance Recoverable	10,512	10,432	9,960	18,420	17,364	18,250	16,707	15,777	16,749	15,671	15,728
* Gross reserves - December 31,	16,513	17,712	18,480	30,485	34,503	39,913	39,877	41,737	48,800	56,197	80,499
Net re-estimated reserve	7,465	9,736	12,317	17,198	20,265	25,442	28,638	33,298	42,723	51,664	
Re-estimated reinsurance recoverable	12,526	13,158	13,592	28,456	22,572	23,640	21,657	21,179	21,204	19,455	
Gross re-estimated reserve	19,991	22,894	25,909	45,654	42,837	49,082	50,295	54,477	63,927	71,119	
Gross cumulative redundancy (deficiency)	(3,478)	(5,182)	(7,429)	(15,169)	(8,334)	(9,169)	(10,418)	(12,740)	(15,127)	(14,922)	

(Components may not sum to totals due to rounding)

Reinsurance

We purchase reinsurance to reduce our net liability on individual risks, to protect against possible catastrophes, to remain within a target ratio of net premiums written to policyholders' surplus, and to expand our underwriting capacity. Participation in reinsurance arrangements does not relieve us from our obligations to policyholders. Our reinsurance program is structured to reflect our obligations and goals.

Reinsurance via quota share allows a carrier to write business without increasing its underwriting leverage above a level determined by management. The business written under a quota share reinsurance structure obligates a reinsurer to assume some portion of the risks involved, and gives the reinsurer the profit (or loss) associated with such in exchange for a ceding commission.

Effective December 15, 2019, we entered into a quota share reinsurance treaty for our personal lines business, which primarily consists of homeowners' policies, covering the period from December 15, 2019 through December 31, 2020 ("2019/2020 Treaty"). In addition to the 2019/2020 Treaty, our quota share reinsurance treaties in effect during the years ended December 31, 2019 and 2018 for our personal lines business, were covered under a treaty covering a two-year period from July 1, 2017 through June 30, 2019 ("2017/2019 Treaty"). The treaty in effect during the year ended December 31, 2019 was covered under the July 1, 2018 through June 30, 2019 treaty year ("2018/2019 Treaty Year"). The treaties in effect during the year ended December 31, 2018 were covered under the July 1, 2017 through June 30, 2018 treaty year ("2017/2018 Treaty Year") and the 2018/2019 Treaty Year that began on July 1, 2018.

Excess of loss contracts provide coverage for individual loss occurrences exceeding a certain threshold. The quota share reinsurance treaties inure to the benefit of our excess of loss treaties, as the maximum net retention on any single risk occurrence is first limited through the excess of loss treaty, and then that loss is shared again through the quota share reinsurance treaty. Our maximum net retention under the quota share and excess of loss treaties for any one personal lines occurrence for dates of loss on or after December 15, 2019 is \$750,000. Our maximum net retention under the excess of loss treaties for any one commercial general liability occurrence for dates of loss on or after July 1, 2019 is \$750,000.

We earn ceding commission revenue under the quota share reinsurance treaties based on a provisional commission rate on all premiums ceded to the reinsurers as adjusted by a sliding scale based on the ultimate treaty year loss ratios on the policies reinsured under each agreement. The sliding scale provides minimum and maximum ceding commission rates in relation to specified ultimate loss ratios.

Under the 2019/2020 Treaty, KICO receives a fixed provisional rate with no adjustment for sliding scale contingent commissions. Under the 2017/2019 Treaty, KICO received a higher upfront fixed provisional rate than in prior years' treaties. In exchange for the higher provisional rate, KICO has a reduced opportunity to earn sliding scale contingent commissions.

The 2019/2020 Treaty and 2017/2019 Treaty are on a "net" of catastrophe reinsurance basis, as opposed to the "gross" arrangement that existed in prior treaties. Under a "net" arrangement, all catastrophe reinsurance coverage is purchased directly by us. Since we pay for all of the catastrophe coverage, none of the losses covered under a catastrophic event will be included in the quota share ceded amounts, drastically reducing the adverse impact that a catastrophic event can have on ceding commissions.

In 2019, we purchased catastrophe reinsurance to provide coverage of up to \$610,000,000 for losses associated with a single event. One of the most commonly used catastrophe forecasting models prepared for us indicates that the catastrophe reinsurance treaties provide coverage in excess of our estimated probable maximum loss associated with a single more than one-in-250 year storm event. The direct retention for any single catastrophe event is \$7,500,000. Effective December 15, 2019 losses on personal lines policies are subject to the 25% quota share treaty, which results in a net retention by us of \$5,625,000 of exposure per catastrophe occurrence. Effective July 1, 2019, we have reinstatement premium protection on the first \$292,500,000 layer of catastrophe coverage in excess of \$7,500,000. This protects us from having to pay an additional premium to reinstate catastrophe coverage for an event up to this level.

Investments

Our investment portfolio, including cash and cash equivalents, and short term investments, as of December 31, 2019 and 2018, is summarized in the table below by type of investment.

Category	December 31, 2019		December 31, 2018	
	Carrying Value	% of Portfolio	Carrying Value	% of Portfolio
Cash and cash equivalents	\$ 32,391,485	14.0%	\$ 21,138,403	10.8%
Held to maturity				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	729,550	0.3%	729,507	0.4%
Political subdivisions of states, territories and possessions	998,619	0.4%	998,803	0.5%
Corporate and other bonds				
Industrial and miscellaneous	2,097,783	0.9%	2,494,545	1.3%
Available for sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	7,061,100	3.0%	8,220,381	4.2%
Political subdivisions of states, territories and possessions	9,321,812	4.0%	6,341,608	3.2%
Corporate and other bonds				
Industrial and miscellaneous	125,622,039	54.2%	115,750,293	59.2%
Residential mortgage backed securities	26,231,230	11.3%	21,465,234	11.0%
Other				
Preferred stocks	8,701,887	3.8%	6,152,956	3.1%
Common stocks, mutual funds, and exchange traded funds	15,959,495	6.9%	10,419,660	5.3%
Other investments	2,584,913	1.1%	1,855,225	0.9%
Total	\$ 231,699,913	100.0%	\$ 195,566,615	100.0%

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

Rating	December 31, 2019		December 31, 2018	
	Estimated Fair Market Value	Percentage of Fair Market Value	Estimated Fair Market Value	Percentage of Fair Market Value
U.S. Treasury securities	\$ 7,061,100	4.2%	\$ 8,220,381	5.4%
Corporate and municipal bonds				
AAA	1,996,676	1.2%	979,123	0.6%
AA	8,809,480	5.2%	8,350,910	5.5%
A	34,636,236	20.6%	27,665,961	18.2%
BBB	89,501,460	53.2%	85,095,907	56.1%
Total corporate and municipal bonds	134,943,852	80.2%	122,091,901	80.4%
Residential mortgage backed securities				
AAA	2,976,306	1.8%	999,640	0.7%
AA	18,440,382	10.9%	12,743,906	8.5%
A	2,471,761	1.5%	4,777,356	3.1%
CCC	1,174,273	0.7%	1,440,825	0.9%
CC	86,461	0.1%	109,648	0.1%
C	17,813	0.0%	24,050	0.0%
D	215,015	0.1%	390,542	0.3%
Non rated	849,218	0.5%	979,267	0.6%
Total residential mortgage backed securities	26,231,229	15.6%	21,465,234	14.2%
Total	\$ 168,236,181	100.0%	\$ 151,777,516	100.0%

See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Principal Revenue and Expense Items" in Item 7 of this Annual Report and Note 2 and Note 11 in the accompanying Consolidated Financial Statements for additional information.

Ratings

Many insurance buyers, agents, brokers and secured lenders use the ratings assigned by A.M. Best and other agencies to assist them in assessing the financial strength and overall quality of the companies with which they do business and from which they are considering purchasing insurance or in determining the financial strength of the company that provides insurance with respect to the collateral they hold. A.M. Best financial strength ratings are derived from an in-depth evaluation of an insurance company's balance sheet strengths, operating performances and business profiles. A.M. Best evaluates, among other factors, the company's capitalization, underwriting leverage, financial leverage, asset leverage, capital structure, quality and appropriateness of reinsurance, adequacy of reserves, quality and diversification of assets, liquidity, profitability, spread of risk, revenue composition, market position, management, market risk and event risk. A.M. Best financial strength ratings are intended to provide an independent opinion of an insurer's ability to meet its obligations to policyholders and are not an evaluation directed at investors.

In November 2016, we commenced a plan of action to upgrade KICO's A.M. Best rating. In April 2017, A.M. Best upgraded the Financial Strength Rating (FSR) of KICO to A- (Excellent) from B++ (Good). The A.M. Best financial strength rating of A- (Excellent) has created significant additional demand from our existing producers, particularly for our New York homeowners business where we compete against many carriers that are not A- rated by A.M. Best. Other ratings assigned to KICO and Kingstone by A.M. Best and Kroll Bond Rating Agency are as follows:

	KICO	Kingstone Companies
A.M. Best Long-Term issuer credit rating (ICR)	a- (negative outlook)	bbb- (stable outlook)
A.M. Best Long-Term issue credit rating (IR)		
\$30.0 million, 5.50% senior unsecured notes due Dec. 30, 2022	n/a	bbb- (stable outlook)
Kroll Bond Rating Agency insurance financial strength rating (IFSR)	A- (stable outlook)	n/a
Kroll Bond Rating Agency issuer rating	n/a	BBB- (stable outlook)
\$30.0 million, 5.50% senior unsecured notes due Dec. 30, 2022	n/a	BBB- (stable outlook)

KICO also has a Demotech financial stability rating of A (Exceptional) which generally makes its policies acceptable to mortgage lenders that require homeowners to purchase insurance from highly rated carriers.

Catastrophe Losses

In 2019 we had 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. Our predominant market, downstate New York, was affected by several events, including one large event during the winter of 2019. These claims were primarily from losses due to frozen pipes and related water damage resulting from abnormally low temperatures for an extended period. The effects of this catastrophe and other minor catastrophes during the year increased our net loss ratio by 6.0 percentage points in 2019. Our predominant market, downstate New York, was affected by several events, including one large event during the winter of 2018. These claims were primarily from losses due to frozen pipes and related water damage resulting from abnormally low temperatures for an extended period. The effects of this catastrophe and other minor catastrophes during the year increased our net loss ratio by 6.0 percentage points in 2018.

Government Regulation

Holding Company Regulation

We, as the parent of KICO, are subject to the insurance holding company laws of the state of New York. These laws generally require an insurance company to register with the New York State Department of Financial Services (the "DFS") and to furnish annually financial and other information about the operations of companies within our holding company system. Generally, under these laws, all material transactions among companies in the holding company system to which KICO is a party must be fair and reasonable and, if material or of a specified category, require prior notice and approval or acknowledgement (absence of disapproval) by the DFS.

Change of Control

The insurance holding company laws of the state of New York require approval by the DFS for any change of control of an insurer. “Control” is generally defined as the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the company, whether through the ownership of voting securities, by contract or otherwise. Control is generally presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of a domestic insurance company or any entity that controls a domestic insurance company. Any future transactions that would constitute a change of control of KICO, including a change of control of Kingstone Companies, Inc., would generally require the party acquiring control to obtain the approval of the DFS (and in any other state in which KICO may operate). Obtaining these approvals may result in the material delay of, or deter, any such transaction. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of Kingstone Companies, Inc., including through transactions, and in particular unsolicited transactions, that some or all of our stockholders might consider to be desirable.

State Insurance Regulation

Insurance companies are subject to regulation and supervision by the department of insurance in the state in which they are domiciled and, to a lesser extent, other states in which they conduct business. The primary purpose of such regulatory powers is to protect individual policyholders. State insurance authorities have broad regulatory, supervisory and administrative powers, including, among other things, the power to grant and revoke licenses to transact business, set the standards of solvency to be met and maintained, determine the nature of, and limitations on, investments and dividends, approve policy forms and rates, and in some instances to regulate unfair trade and claims practices.

KICO is required to file detailed financial statements and other reports with the insurance regulatory authorities in the states in which it is licensed to transact business. These financial statements are subject to periodic examination by the insurance regulators.

In addition, many states have laws and regulations that limit an insurer’s ability to withdraw from a particular market. For example, states may limit an insurer’s ability to cancel or not renew policies. Furthermore, certain states prohibit an insurer from withdrawing from one or more lines of business written in the state, except pursuant to a plan that is approved by the insurance regulatory authority. The state regulator may reject a plan that may lead to market disruption. Laws and regulations, including those in New York, that limit cancellation and non-renewal and that subject program withdrawals to prior approval requirements may restrict the ability of KICO to exit unprofitable markets. Such laws did not affect KICO’s ability to withdraw from the commercial liability market in New York State in 2019 and the commercial auto market in New York State in 2015. On January 29, 2019, KICO was granted permission by the Texas Department of Insurance to withdraw from the Texas insurance market for which it never commenced business since receiving its certificate of authority in August 2015.

Federal and State Legislative and Regulatory Changes

From time to time, various regulatory and legislative changes have been proposed in the insurance industry. Among the proposals that either have been or are being considered are the possible introduction of Federal regulation in addition to, or in lieu of, the current system of state regulation of insurers, and proposals in various state legislatures. Some of these proposals have been enacted to conform portions of their insurance laws and regulations to various model acts adopted by the National Association of Insurance Commissioners (the “NAIC”).

In 2017, the DFS implemented new comprehensive cybersecurity regulations, which became effective on March 1, 2017 with transitional implementation periods. The regulations require covered entities, including KICO, to establish a cybersecurity policy, a chief information security officer, oversight over third party service providers, penetration and vulnerability assessments, secure systems to maintain an audit trail, risk assessments to include access privileges to nonpublic information, use of multi-factor authentication, and an incident response plan, among other provisions. KICO must annually certify compliance to the DFS with the applicable cybersecurity regulatory provisions. Annual certifications are due April 15.

In 2010 the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) became law. It established a Federal Insurance Office (the “FIO”) within the U.S. Department of the Treasury. The FIO is initially charged with monitoring all aspects of the insurance industry (other than health insurance, certain long-term care insurance and crop insurance), gathering data, and conducting a study on methods to modernize and improve the insurance regulatory system in the United States. In December 2013, the FIO issued a report (as required under the Dodd-Frank Act) entitled “How to Modernize and Improve the System of Insurance Regulation in the United States”, which stated that, given the “uneven” progress the states have made with several near-term state reforms, should the states fail to accomplish the necessary modernization reforms in the near term, “Congress should strongly consider direct federal involvement.” The FIO continues to support the current state-based regulatory regime, but will consider federal regulation should the states fail to take steps to greater uniformity (e.g., federal licensing of insurers). In 2017, the new President indicated that the provisions of this law should be reviewed. In its September 2019 Annual Report on the Insurance Industry (the “Report”), the FIO provided an overview of its statutory responsibilities and its role. The Report then summarizes the FIO’s key activities since those described in its 2018 Annual Report on the Insurance Industry. Next, the Report provides a summary of the EO Report. Sections II through V are organized around the four key themes from the EO Report: (1) Systemic Risk and Solvency; (2) Efficient Regulation and Government Processes; (3) International Engagement; and (4) Economic Growth and Informed Choices. The Report concludes with a discussion and analysis of the insurance industry’s financial performance in calendar year 2018, its financial condition as of December 31, 2018, and the domestic insurance market outlook for 2019.

On December 22, 2017, a budget reconciliation act commonly referred to as the Tax Cuts and Jobs Act (TCJA) was signed into law. Overall, the reduction of the U.S. corporate tax rate to 21 percent generally lowers the effective tax rates of insurance companies operating in the United States.

On December 20, 2020, the Terrorism Risk Insurance Program Reauthorization Act of 2019 (TRIPRA of 2019) was enacted and is now scheduled to expire on December 31, 2027. The Terrorism Risk Insurance Program serves as a federal “backstop” for insurance claims related to acts of terrorism.

State Regulatory Examinations

As part of their regulatory oversight process, state regulatory authorities conduct periodic detailed examinations of the financial reporting of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance regulators of other states under guidelines promulgated by the NAIC. The New York DFS commenced its examination of KICO in 2019 as of December 31, 2018. The examination is expected to be completed in 2020.

Risk-Based Capital Regulations

State regulatory authorities impose risk-based capital (“RBC”) requirements on insurance enterprises. The RBC Model serves as a benchmark for the regulation of insurance companies. RBC provides for targeted surplus levels based on formulas, which specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk, and are set forth in the RBC requirements. Such formulas focus on four general types of risk: (a) the risk with respect to the company’s assets (asset or default risk); (b) the risk of default on amounts due from reinsurers, policyholders, or other creditors (credit risk); (c) the risk of underestimating liabilities from business already written or inadequately pricing business to be written in the coming year (underwriting risk); and (d) the risk associated with items such as excessive premium growth, contingent liabilities, and other items not reflected on the balance sheet (off-balance sheet risk). The amount determined under such formulas is called the authorized control level RBC (“ACL”).

The RBC guidelines define specific capital levels based on a company’s ACL that are determined by the ratio of the company’s total adjusted capital (“TAC”) to its ACL. TAC is equal to statutory capital, plus or minus certain other specified adjustments. KICO’s TAC is above the ACL and is in compliance with New York’s RBC requirements as of December 31, 2019.

Dividend Limitations

Our ability to receive dividends from KICO is restricted by the state laws and insurance regulations of New York. These restrictions are related to surplus and net investment income. Dividends are restricted to the lesser of 10% of surplus or 100% of investment income (on a statutory accounting basis) for the trailing 36 months, less dividends by KICO paid during such period.

Insurance Regulatory Information System Ratios

The Insurance Regulatory Information System (“IRIS”) was developed by the NAIC and is intended primarily to assist state insurance regulators in meeting their statutory mandates to oversee the financial condition of insurance companies operating in their respective states. IRIS identifies thirteen industry ratios and specifies “usual values” for each ratio. Departure from the usual values on four or more of the ratios can lead to inquiries from individual state insurance commissioners as to certain aspects of an insurer’s business. As of December 31, 2019, KICO did not have any ratios outside the usual range.

Accounting Principles

Statutory accounting principles (“SAP”) are a basis of accounting developed by the NAIC. They are used to prepare the statutory financial statements of insurance companies and to assist insurance regulators in monitoring and regulating the solvency of insurance companies. SAP is primarily concerned with measuring an insurer’s policyholder surplus. Accordingly, statutory accounting focuses on valuing assets and liabilities of insurers at financial reporting dates in accordance with appropriate insurance law and regulatory provisions applicable in each insurer’s domiciliary state.

Generally accepted accounting principles (“GAAP”) are concerned with a company’s solvency, but are also concerned with other financial measurements, principally results of operations and cash flows. Accordingly, GAAP gives more consideration to appropriate matching of revenue and expenses and accounting for management’s stewardship of assets than does SAP. As a direct result, different types and amounts of assets and liabilities will be reflected in financial statements prepared in accordance with GAAP as compared to SAP.

Statutory accounting practices established by the NAIC and adopted in part by New York insurance regulators determine, among other things, the amount of statutory surplus and statutory net income of KICO and thus determine, in part, the amount of funds that are available to Kingstone Companies, Inc. from which to pay dividends.

Legal Structure

We were incorporated in 1961 and assumed the name DCAP Group, Inc. in 1999. On July 1, 2009, we changed our name to Kingstone Companies, Inc.

Employees

As of December 31, 2019, we had 97 employees. None of our employees are covered by a collective bargaining agreement. We believe that our relationship with our employees is good.

Availability of Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are filed with the U.S. Securities and Exchange Commission (the "SEC"). Such reports and other information filed by us with the SEC are available free of charge at the investor relations section of our website at www.kingstonecompanies.com as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. Copies are also available, without charge, by writing to Kingstone Companies, Inc., Investor Relations, 15 Joys Lane, Kingstone, New York 12401. The SEC also maintains a website, www.sec.gov, which contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The inclusion of our website address in this Annual Report does not include or incorporate by reference the information on our website into this Annual Report.

ITEM 1A. RISK FACTORS.

Factors That May Affect Future Results and Financial Condition

Based upon the following factors, as well as other factors affecting our operating results and financial condition, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods. These factors, among others, may affect the accuracy of certain forward-looking statements contained in this Annual Report.

Risks Related to Our Business

We have identified a material weakness in our internal control over financial reporting, which could adversely affect our business, results of operations, stock price and reputation.

We have identified a material weakness in the internal control over financial reporting related to the operation of controls related to the establishment and ongoing monitoring of case reserves for losses and loss adjustment expenses. Based on the material weakness, our management has determined that we have not maintained effective internal control over financial reporting as of December 31, 2019. See Part II, Item 9A "Controls and Procedures" for a discussion of the internal control over financial reporting and the material weakness.

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

If we fail to achieve and maintain adequate internal controls, or if we have material weaknesses in our internal controls, in each case in accordance with applicable standards, we may be unable to conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404.

Because effective internal controls are necessary for us to produce reliable financial reports, our business, financial condition and results of operations could be harmed, investors could lose confidence in our reported financial information, and the market price for our stock could decline if our internal controls are ineffective or if material weaknesses in our internal controls are identified.

Major public health issues could have an adverse effect on our business and operating results.

Major public health issues, including a large-scale pandemic, such as the novel coronavirus COVID-19, may have a material adverse effect on our workforce and business operations and cause disruptions in commerce and reduced economic activity. Some of the assets in our investment portfolio may be adversely affected by declines in the equity markets, changes in interest rates, reduced liquidity and economic activity caused by a large-scale pandemic. Accordingly, a large-scale pandemic could have a material adverse effect on our revenue, liquidity and operating results.

As a property and casualty insurer, we may face significant losses from catastrophes and severe weather events.

Because of the exposure of our property and casualty business to catastrophic events (such as Superstorm Sandy) and other severe weather events, our operating results and financial condition may vary significantly from one period to the next. Catastrophes can be caused by various natural and man-made disasters, including earthquakes, wildfires, tornadoes, hurricanes, severe winter weather, storms and certain types of terrorism. We currently have catastrophe reinsurance coverage with regard to losses of up to \$610,000,000. The initial \$7,500,000 of losses in a catastrophe are subject to a 25% quota share reinsurance treaty, such that we retain \$5,625,000 of risk per catastrophe occurrence. With respect to any additional catastrophe losses of up to \$602,500,000, we are 100% reinsured under our catastrophe reinsurance program. Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts. We may incur catastrophe losses in excess of: (i) those that we project would be incurred, (ii) those that external modeling firms estimate would be incurred, (iii) the average expected level used in pricing or (iv) our current reinsurance coverage limits. Despite our catastrophe management programs, we are exposed to catastrophes that could have a material adverse effect on our operating results and financial condition. Our liquidity could be constrained by a catastrophe, or multiple catastrophes, which may result in extraordinary losses or a downgrade of our financial strength ratings. In addition, the reinsurance losses that are incurred in connection with a catastrophe could have an adverse impact on the terms and conditions of future reinsurance treaties.

In addition, we are subject to claims arising from non-catastrophic weather events such as hurricanes, tropical storms, severe winter weather, rain, hail and high winds. The incidence and severity of weather conditions are largely unpredictable. There is generally an increase in the frequency and severity of claims when severe weather conditions occur.

Unanticipated increases in the severity or frequency of claims may adversely affect our operating results and financial condition.

Changes in the severity or frequency of claims may affect our profitability. Changes in homeowners claim severity are driven by inflation in the construction industry, in building materials and home furnishings, and by other economic and environmental factors, including increased demand for services and supplies in areas affected by catastrophes. Changes in bodily injury claim severity are driven primarily by inflation in the medical sector of the economy and by litigation costs. Changes in auto physical damage claim severity are driven primarily by inflation in auto repair costs, prices of auto parts and used car prices. However, changes in the level of the severity of claims are not limited to the effects of inflation and demand surge in these various sectors of the economy. Increases in claim severity can arise from unexpected events that are inherently difficult to predict, such as a change in the law or an inability to enforce exclusions and limitations contained in our policies. Although we pursue various loss management initiatives to mitigate future increases in claim severity, there can be no assurances that these initiatives will successfully identify or reduce the effect of future increases in claim severity, and a significant increase in claim frequency could have an adverse effect on our operating results and financial condition.

A downgrade in our financial strength rating from A.M. Best may have a material adverse effect on our competitive position, the marketability of our product offerings, and our liquidity, operating results and financial condition.

In April 2017, A.M. Best upgraded the financial strength rating of KICO to A- (Excellent) from B++ (Good). Financial strength ratings are important factors in establishing the competitive position of insurance companies and generally have an effect on an insurance company's business. Many insurance buyers, agents, brokers and secured lenders use the ratings assigned by A.M. Best and other agencies to assist them in assessing the financial strength and overall quality of the companies with which they do business or from which they are considering purchasing insurance or in determining the financial strength of the company that provides insurance with respect to the collateral they hold. A.M. Best ratings are derived from an in-depth evaluation of an insurance company's balance sheet strengths, operating performances and business profiles. A.M. Best evaluates, among other factors, the company's capitalization, underwriting leverage, financial leverage, asset leverage, capital structure, quality and appropriateness of reinsurance, adequacy of reserves, quality and diversification of assets, liquidity, profitability, spread of risk, revenue composition, market position, management, market risk and event risk. On an ongoing basis, rating agencies such as A.M. Best review the financial performance and condition of insurers and can downgrade or change the outlook on an insurer's ratings due to, for example, a change in an insurer's statutory capital, a reduced confidence in management or a host of other considerations that may or may not be under the insurer's control. All ratings are subject to continuous review; therefore, the retention of these ratings cannot be assured. A downgrade in our financial strength rating from A.M. Best could have a material adverse effect on our competitiveness, the marketability of our product offerings and our ability to grow in the marketplace.

Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs or our ability to obtain credit on acceptable terms.

The capital and credit markets can experience periods of volatility and disruption. In some cases, markets have exerted downward pressure on the availability of liquidity and credit capacity. In the event that we need access to additional capital to support our operating expenses, make payments on our outstanding and any future indebtedness, pay for capital expenditures, or increase the amount of insurance that we seek to underwrite or to otherwise grow our business, our ability to obtain such capital may be limited and the cost of any such capital may be significant. Our access to additional financing will depend on a variety of factors, such as market conditions, the general availability of credit, the overall availability of credit to our industry, our credit ratings and credit capacity as well as lenders' perception of our long or short-term financial prospects. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us. If a combination of these factors occurs, our internal sources of liquidity may prove to be insufficient and, in such case, we may not be able to successfully obtain additional financing on favorable terms.

We are exposed to significant financial and capital markets risk which may adversely affect our results of operations, financial condition and liquidity, and our net investment income can vary from period to period.

We are exposed to significant financial and capital markets risk, including changes in interest rates, equity prices, market volatility, general economic conditions, the performance of the economy in general, the performance of the specific obligors included in our portfolio, and other factors outside our control. Our exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. Our investment portfolio contains interest rate sensitive instruments, such as fixed income securities, which may be adversely affected by changes in interest rates from governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. A rise in interest rates would increase the net unrealized loss position of our investment portfolio, which would be offset by our ability to earn higher rates of return on funds reinvested. Conversely, a decline in interest rates would decrease the net unrealized loss position of our investment portfolio, which would be offset by lower rates of return on funds reinvested.

In addition, market volatility can make it difficult to value certain of our securities if trading becomes less frequent. As such, valuations may include assumptions or estimates that may have significant period to period changes which could have a material adverse effect on our consolidated results of operations or financial condition. If significant, continued volatility, changes in interest rates, changes in defaults, a lack of pricing transparency, market liquidity and declines in equity prices, individually or in tandem, could have a material adverse effect on our results of operations, financial condition or cash flows through realized losses, impairments, and changes in unrealized positions.

Reinsurance may be unavailable at current levels and prices, which may limit our ability to write new business or maintain our financial strength rating from A.M. Best.

We purchase reinsurance to reduce our net liability on individual risks, to protect against possible catastrophes, to remain within a target ratio of net premiums written to policyholders' surplus and to expand our underwriting capacity. Participation in reinsurance arrangements does not relieve us from our obligations to policyholders. Our personal lines catastrophe reinsurance program was designed, utilizing our risk management methodology, to address our exposure to catastrophes. Market conditions beyond our control impact the availability and cost of the reinsurance we purchase. No assurances can be given that reinsurance will remain continuously available to us to the same extent and on the same terms and rates as currently available. For example, our ability to afford reinsurance to reduce our catastrophe risk may be dependent upon our ability to adjust premium rates for its cost, and there are no assurances that the terms and rates for our current reinsurance program will continue to be available in the future. If we are unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient and at prices that we consider acceptable, we will have to either accept an increase in our exposure risk, reduce our insurance writings or seek other alternatives. Our ability to maintain our financial strength rating from A.M. Best depends, in part, on our ability to purchase a sufficient level of catastrophe reinsurance.

Reinsurance subjects us to the credit risk of our reinsurers, which may have a material adverse effect on our operating results and financial condition.

The collectability of reinsurance recoverables is subject to uncertainty arising from a number of factors, including changes in market conditions, whether insured losses meet the qualifying conditions of the reinsurance contract and whether reinsurers, or their affiliates, have the financial capacity and willingness to make payments under the terms of a reinsurance treaty or contract. Since we are primarily liable to an insured for the full amount of insurance coverage, our inability to collect a material recovery from a reinsurer could have a material adverse effect on our operating results and financial condition.

Applicable insurance laws regarding the change of control of our company may impede potential acquisitions that our shareholders might consider desirable.

We are subject to statutes and regulations of the state of New York which generally require that any person or entity desiring to acquire direct or indirect control of KICO, our insurance company subsidiary, obtain prior regulatory approval. In addition, a change of control of Kingstone Companies, Inc. would require such approval. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of our company, including through transactions, and in particular unsolicited transactions. Some of our shareholders might consider such transactions to be desirable. Similar regulations may apply in other states in which we may operate.

The insurance industry is subject to extensive regulation that may affect our operating costs and limit the growth of our business, and changes within this regulatory environment may adversely affect our operating costs and limit the growth of our business.

We are subject to extensive laws and regulations. State insurance regulators are charged with protecting policyholders and have broad regulatory, supervisory and administrative powers over our business practices. These include, among other things, the power to grant and revoke licenses to transact business and the power to regulate and approve underwriting practices and rate changes, which may delay the implementation of premium rate changes, prevent us from making changes we believe are necessary to match rate to risk or delay or prevent our entry into new states. In addition, many states have laws and regulations that limit an insurer's ability to cancel or not renew policies and that prohibit an insurer from withdrawing from one or more lines of business written in the state, except pursuant to a plan that is approved by state regulatory authorities. Laws and regulations that limit cancellation and non-renewal and that subject program withdrawals to prior approval requirements may restrict our ability to exit unprofitable markets.

Because the laws and regulations under which we operate are administered and enforced by a number of different governmental authorities, including state insurance regulators, state securities administrators and the SEC, each of which exercises a degree of interpretive latitude, we are subject to the risk that compliance with any particular regulator's or enforcement authority's interpretation of a legal issue may not result in compliance with another's interpretation of the same issue, particularly when compliance is judged in hindsight. In addition, there is risk that any particular regulator's or enforcement authority's interpretation of a legal issue may change over time to our detriment, or that changes in the overall legal and regulatory environment may, even in the absence of any change to a particular regulator's or enforcement authority's interpretation of a legal issue changing, cause us to change our views regarding the actions we need to take from a legal risk management perspective, thereby necessitating changes to our practices that may, in some cases, limit our ability to grow and/or to improve the profitability of our business.

While the United States federal government does not directly regulate the insurance industry, federal legislation and administrative policies can affect us. Congress and various federal agencies periodically discuss proposals that would provide for a federal charter for insurance companies. We cannot predict whether any such laws will be enacted or the effect that such laws would have on our business. Moreover, there can be no assurance that changes will not be made to current laws, rules and regulations, or that any other laws, rules or regulations will not be adopted in the future, that could adversely affect our business and financial condition.

We may not be able to maintain the requisite amount of risk-based capital, which may adversely affect our profitability and our ability to compete in the property and casualty insurance markets.

The DFS imposes risk-based capital requirements on insurance companies to ensure that insurance companies maintain appropriate levels of surplus to support their overall business operations and to protect customers against adverse developments, after taking into account default, credit, underwriting and off-balance sheet risks. If the amount of our capital falls below certain thresholds, we may face restrictions with respect to soliciting new business and/or keeping existing business. Similar regulations apply in other states in which we operate.

Changing climate conditions may adversely affect our financial condition, profitability or cash flows.

We recognize the scientific view that the world is getting warmer. Climate change, to the extent it produces rising temperatures and changes in weather patterns, could impact the frequency and/or severity of weather events and affect the affordability and availability of homeowners insurance.

Our operating results and financial condition may be adversely affected by the cyclical nature of the property and casualty business.

The property and casualty market is cyclical and has experienced periods characterized by relatively high levels of price competition, less restrictive underwriting standards and relatively low premium rates, followed by periods of relatively lower levels of competition, more selective underwriting standards and relatively high premium rates. A downturn in the profitability cycle of the property and casualty business could have a material adverse effect on our operating results and financial condition.

Because substantially all of our revenue is currently derived from sources located in New York, our business may be adversely affected by conditions in such state.

Approximately 85% of our revenue is currently derived from sources located in the State of New York and, accordingly, is affected by the prevailing regulatory, economic, demographic, competitive and other conditions in the state. Changes in any of these conditions could make it costlier or difficult for us to conduct our business. Adverse regulatory developments in New York, which could include fundamental changes to the design or implementation of the insurance regulatory framework, could have a material adverse effect on our results of operations and financial condition.

We are highly dependent on a relatively small number of insurance brokers for a large portion of our revenues.

We market our insurance products primarily through insurance brokers. A large percentage of our gross premiums written are sourced through a limited number of brokers. For the year ended December 31, 2019, twenty-seven brokers provided a total of 35.1% of our total gross premiums written for the year ended December 31, 2019. The nature of our dependency on these brokers relates to the high volume of business they consistently refer to us. Our relationship with these brokers is based on the quality of the underwriting and claims services we provide to our clients and on our financial strength ratings. Any deterioration in these factors could result in these brokers advising clients to place their risks with other insurers rather than with us. A loss of all or a substantial portion of the business provided by one or more of these brokers could have a material adverse effect on our financial condition and results of operations.

Actual claims incurred may exceed current reserves established for claims, which may adversely affect our operating results and financial condition.

Recorded claim reserves for our business are based on our best estimates of losses after considering known facts and interpretations of circumstances. Internal and external factors are considered. Internal factors include, but are not limited to, actual claims paid, pending levels of unpaid claims, product mix and contractual terms. External factors include, but are not limited to, changes in the law, court decisions, changes in regulatory requirements and economic conditions. Because reserves are estimates of the unpaid portion of losses that have occurred, the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process. The ultimate cost of losses may vary materially from recorded reserves, and such variance may adversely affect our operating results and financial condition.

As a holding company, we are dependent on the results of operations of our subsidiary, KICO; there are restrictions on the payment of dividends by KICO.

We are a holding company and a legal entity separate and distinct from our operating subsidiary, KICO. As a holding company with limited operations of our own, currently the principal sources of our funds are dividends and other payments from KICO. Consequently, we must rely on KICO for our ability to repay debts (including \$30,000,000 in aggregate principal amount of 5.5% Senior Unsecured Notes due December 30, 2022 (the "Notes")), pay expenses and pay cash dividends to our shareholders.

State insurance laws limit the ability of KICO to pay dividends and require KICO to maintain specified minimum levels of statutory capital and surplus. Maximum allowable dividends by KICO to us are restricted to the lesser of 10% of surplus or 100% of net investment income (on a statutory accounting basis) for the trailing 36 months, less dividends paid by KICO during such period. As of December 31, 2019, the maximum permissible distribution that KICO could pay without prior regulatory approval was approximately \$2,384,000. The aggregate maximum amount of dividends permitted by law to be paid by an insurance company does not necessarily define an insurance company's actual ability to pay dividends. The actual ability to pay dividends may be further constrained by business and regulatory considerations, such as the impact of dividends on surplus, by our competitive position and by the amount of premiums that we can write. State insurance regulators have broad discretion to limit the payment of dividends by insurance companies. Our ability to pay interest on the Notes as it comes due and the principal of the Notes at their maturity may be limited by these regulatory constraints.

We may not be able to generate sufficient cash to service our debt obligations, including the Notes.

Our ability to make payments on and to refinance our indebtedness, including the Notes, will depend on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may be unable to maintain a sufficient level of cash flows from operating activities to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the Notes.

Our future results are dependent in part on our ability to successfully operate in an insurance industry that is highly competitive.

The insurance industry is highly competitive. Many of our competitors have well-established national reputations, substantially more capital and significantly greater marketing and management resources. Because of the competitive nature of the insurance industry, including competition for customers, agents and brokers, there can be no assurance that we will continue to effectively compete with our industry rivals, or that competitive pressures will not have a material adverse effect on our ability to grow our business and to maintain profitable operating results or financial condition.

If we lose key personnel or are unable to recruit qualified personnel, our ability to implement our business strategies could be delayed or hindered.

Our future success will depend, in part, upon the efforts of Barry Goldstein, our President, Chief Executive Officer and Executive Chairman and Meryl Golden our Chief Operating Officer. The loss of Mr. Goldstein and Ms. Golden or other key personnel could prevent us from fully implementing our business strategies and could materially and adversely affect our business, financial condition and results of operations. As we continue to grow, we will need to recruit and retain additional qualified management personnel, but we may not be able to do so. Our ability to recruit and retain such personnel will depend upon a number of factors, such as our results of operations and prospects and the level of competition prevailing in the market for qualified personnel. Mr. Goldstein entered into an amended and restated employment agreement effective January 1, 2020 and expiring December 31, 2022. Ms. Golden entered into an employment agreement effective September 25, 2019 and expiring on December 31, 2021, whereby Ms. Golden became Chief Operating Officer.

Difficult conditions in the economy generally could adversely affect our business and operating results.

As with most businesses, we believe that difficult conditions in the economy could have an adverse effect on our business and operating results. General economic conditions also could adversely affect us in the form of consumer behavior, which may include decreased demand for our products. As consumers become more cost conscious, they may choose to purchase lower levels of insurance.

Changes in accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies may adversely affect our reported results of operations and financial condition.

Our financial statements are subject to the application of generally accepted accounting principles, which are periodically revised, interpreted and/or expanded. Accordingly, we are required to adopt new guidance or interpretations, which may have a material adverse effect on our results of operations and financial condition that is either unexpected or has a greater impact than expected.

Our business could be adversely affected by a security breach or other attack involving our computer systems or those of one or more of our vendors.

Our business requires that we develop and maintain computer systems to run our operations and to store a significant volume of confidential data. Some of these systems rely on third-party vendors, through either a connection to, or an integration with, those third-parties' systems. In the course of our operations, we acquire the personal confidential information of our customers and employees. We also store our intellectual property, trade secrets, and other sensitive business and financial information.

All of these systems are subject to "cyber attacks" by sophisticated third parties with substantial computing resources and capabilities, and to unauthorized or illegitimate actions by employees, consultants, agents and other persons with legitimate access to our systems. Such attacks or actions may include attempts to:

- steal, corrupt, or destroy data, including our intellectual property, financial data or the personal information of our customers or employees
- misappropriate funds
- disrupt or shut down our systems
- deny customers, agents, brokers, or others access to our systems, or
- infect our systems with viruses or malware.

While we can take defensive measures, there can be no assurance that we will be successful in preventing attacks or detecting and stopping them once they have begun. Our business could be significantly damaged by a security breach, data loss or corruption, or cyber attack. In addition to the potentially high costs of investigating and stopping such an event and implementing necessary fixes, we could incur substantial liability if confidential customer or employee information is stolen. In addition, such an event could cause a significant disruption of our ability to conduct our insurance operations. We have a cyber insurance policy to protect against the monetary impact of some of these risks. However, the occurrence of a security breach, data loss or corruption, or cyber-attack, if sufficiently severe, could have a material adverse effect on our business results.

We rely on our information technology and telecommunication systems, and the failure of these systems could materially and adversely affect our business.

Our business is highly dependent upon the successful and uninterrupted functioning of our information technology and telecommunications systems. We rely on these systems to support our operations. The failure of these systems could interrupt our operations and result in a material adverse effect on our business.

We and certain present or former officers and directors are defendants in a putative class action asserting claims under the securities laws; an adverse outcome in such litigation could have a material adverse effect on our operations and financial condition.

On June 12, 2019, Phillip Woolgar filed a suit naming the Company and certain present or former officers and directors as defendants in a putative class action captioned Woolgar v. Kingstone Companies et al., 19 cv 05500 (S.D.N.Y.), asserting claims under Section 10(b) of the Exchange Act and SEC Rule 10b-5 promulgated thereunder and Section 20(a) of the Exchange Act. Plaintiff seeks to represent a class of persons or entities that purchased Kingstone securities between March 14, 2018, and April 29, 2019, and alleges violations of the federal securities law in connection with the Company's April 29, 2019 announcement regarding losses related to winter catastrophe events. The lawsuit alleges that the Company failed to disclose that it did not adequately follow industry best practices related to claims handling and thus did not record sufficient claim reserves, and that as a result, Defendants' positive statements about the Company's business, operations and prospects misled investors. Plaintiff seeks, among other things, an undetermined amount of money damages. We believe the lawsuit to be without merit. On February 18, 2020, a motion to dismiss was filed with the court. However, litigation is inherently uncertain, and we are unable to predict the outcome of this lawsuit or estimate the range of loss, if any, that could result from an unfavorable outcome. We also cannot provide any assurance that the ultimate resolution of this lawsuit will not have a material adverse effect on our operations or financial condition.

Risks Related to Our Common Stock

Our stock price may fluctuate significantly and be highly volatile and this may make it difficult for shareholders to resell shares of our common stock at the volume, prices and times they find attractive.

The market price of our common stock could be subject to significant fluctuations and be highly volatile, which may make it difficult for shareholders to resell shares of our common stock at the volume, prices and times they find attractive. There are many factors that will impact our stock price and trading volume, including, but not limited to, the factors listed above under "Risks Related to Our Business."

Stock markets, in general, have experienced in recent years, and continue to experience, significant price and volume volatility, and the market price of our common stock may continue to be subject to similar market fluctuations that may be unrelated to our operating performance and prospects. Increased market volatility and fluctuations could result in a substantial decline in the market price of our common stock.

The trading volume in our common stock has been limited. As a result, shareholders may not experience liquidity in their investment in our common stock, thereby potentially limiting their ability to resell their shares at the volume, times and prices they find attractive.

Our common stock is currently traded on The Nasdaq Capital Market ("Nasdaq"). Our common stock has substantially less liquidity than the average trading market for many other publicly traded insurance and other companies. An active trading market for our common stock may not develop or, if developed, may not be sustained. Such stocks can be more volatile than stocks trading in an active public market. Therefore, shareholders have reduced liquidity and may not be able to sell their shares at the volume, prices and times that they desire.

There may be future issuances or resales of our common stock which may materially and adversely affect the market price of our common stock.

Subject to any required state insurance regulatory approvals, we are not restricted from issuing additional shares of our common stock in the future, including securities convertible into, or exchangeable or exercisable for, shares of our common stock. Our issuance of additional shares of common stock in the future will dilute the ownership interests of our then existing shareholders.

We have an effective registration on Form S-3 under the Securities Act of 1933, as amended (the "Securities Act") registering for resale 595,238 shares of our common stock and effective registration statements on Form S-8 under the Securities Act registering an aggregate of 700,000 shares of our common stock issuable under our 2005 Equity Participation Plan and an aggregate of 700,000 shares of our common stock issuable under our 2014 Equity Participation Plan. As of December 31, 2019, options to purchase 82,000 shares of our common stock, and 213,929 shares subject to unvested restricted stock grants, were outstanding under the 2014 plan and 327,900 shares were reserved for issuance thereunder. We have also registered up to \$39,290,000 of our securities pursuant to registration statements on Form S-3, which we may sell from time to time in one or more offerings. The shares subject to the registration statements on Form S-3 will be freely tradeable in the public market. In addition, the shares issuable pursuant to the registration statements on Form S-8 will be freely tradable in the public market, except for shares held by our affiliates.

The sale of a substantial number of shares of our common stock or securities convertible into, or exchangeable or exercisable for, shares of our common stock, whether directly by us, by selling shareholders in future offerings or by our existing shareholders in the secondary market, the perception that such issuances or resales could occur or the availability for future issuances or resale of shares of our common stock or securities convertible into, or exchangeable or exercisable for, shares of our common stock could materially and adversely affect the market price of our common stock and our ability to raise capital through future offerings of equity or equity-related securities on attractive terms or at all.

In addition, our board of directors is authorized to designate and issue preferred stock without further shareholder approval, and we may issue other equity and equity-related securities that are senior to our common stock in the future for a number of reasons, including, without limitation, to support operations and growth, to maintain our capital ratios, and to comply with any future changes in regulatory standards.

Our executive officers and directors own a substantial number of shares of our common stock. This will enable them to significantly influence the vote on all matters submitted to a vote of our shareholders.

As of March 9, 2020, our executive officers and directors beneficially owned 990,904 shares of our common stock (including options to purchase 19,500 shares of our common stock and 6,925 shares of our common stock issuable upon the vesting of restricted stock within 60 days), representing 9.2% of the outstanding shares of our common stock.

Accordingly, our executive officers and directors, through their beneficial ownership of our common stock, will be able to significantly influence the vote on all matters submitted to a vote of our shareholders, including the election of directors, amendments to our restated certificate of incorporation or amended and restated bylaws, mergers or other business combination transactions and certain sales of assets outside the usual and regular course of business. The interests of our executive officers and directors may not coincide with the interests of our other shareholders, and they could take actions that advance their own interests to the detriment of our other shareholders.

Anti-takeover provisions and the regulations to which we may be subject may make it more difficult for a third party to acquire control of us, even if the change in control would be beneficial to our shareholders.

We are a holding company incorporated in Delaware. Anti-takeover provisions in Delaware law and our restated certificate of incorporation and bylaws, as well as regulatory approvals required under state insurance laws, could make it more difficult for a third party to acquire control of us and may prevent shareholders from receiving a premium for their shares of common stock. Our certificate of incorporation provides that our board of directors may issue up to 2,500,000 shares of preferred stock, in one or more series, without shareholder approval and with such terms, preferences, rights and privileges as the board of directors may deem appropriate. These provisions, the control of our executive officers and directors over the election of our directors, and other factors may hinder or prevent a change in control, even if the change in control would be beneficial to, or sought by, our shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Our principal executive offices are currently located at 15 Joys Lane, Kingston, New York 12401. Our insurance underwriting business is located principally at 15 Joys Lane, Kingston, New York 12401. Our insurance underwriting business also maintains an executive office located at 70 East Sunrise Highway, Valley Stream, New York 11581, at which we lease 4,985 square feet of space. Our licensed general agency business maintains an office located at 70 East Sunrise Highway, Valley Stream, New York 11581, at which we lease 2,323 square feet of space.

We own the building at which our insurance underwriting business principally operates, free of mortgage.

ITEM 3. LEGAL PROCEEDINGS.

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

On February 18, 2020, a motion to dismiss was filed with the court.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Our common stock is quoted on The Nasdaq Capital Market under the symbol "KINS."

Holders

As of March 9, 2020, there were 216 record holders of our common stock.

Dividends

Holders of our common stock are entitled to dividends when, as and if declared by our Board of Directors out of funds legally available. We have paid a cash dividend in each quarter since September 2011.

Future dividend policy will be subject to the discretion of our Board of Directors and will be contingent upon future earnings, if any, our financial condition, capital requirements, general business conditions, and other factors. Therefore, we can give no assurance that future dividends of any kind will continue to be paid to holders of our common stock.

Our ability to pay dividends depends, in part, on the ability of KICO to pay dividends to us. KICO, as an insurance subsidiary, is subject to significant regulatory restrictions limiting its ability to declare and pay dividends. These restrictions are related to surplus and net investment income. Without the prior approval of the DFS, dividends are restricted to the lesser of 10% of surplus or 100% of investment income (on a statutory accounting basis) for the trailing 36 months, less dividends paid by KICO during such period. As of December 31, 2019, the maximum distribution that KICO could pay without prior regulatory approval was approximately \$2,384,000, which is based on investment income for the trailing 36 months, net of dividends paid by KICO during such period. See "Business – Government Regulation" and "Management's Discussion and Analysis of Financial Condition and Results of Operation – Liquidity" in Items 1 and 7, respectively, of this Annual Report.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

There were no purchases of common stock made by us or any "affiliated purchaser" during the quarter ended December 31, 2019.

ITEM 6. SELECTED FINANCIAL DATA.

This item is not applicable to smaller reporting companies.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

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, Massachusetts, Pennsylvania, Connecticut, Maine, and New Hampshire. For the year ended December 31, 2019, 85.0% of KICO's direct written premiums came from the New York policies.

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

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

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

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

Principal Revenue and Expense Items

Net premiums earned: Net premiums earned is the earned portion of our written premiums, less that portion of premium that is ceded to third party reinsurers under reinsurance agreements. The amount ceded under these reinsurance agreements is based on a contractual formula contained in the individual reinsurance agreement. Insurance premiums are earned on a pro rata basis over the term of the policy. At the end of each reporting period, premiums written that are not earned are classified as unearned premiums and are earned in subsequent periods over the remaining term of the policy. Our insurance policies have a term of one year. Accordingly, for a one-year policy written on July 1, 2019, we would earn half of the premiums in 2019 and the other half in 2020.

Ceding commission revenue: Commissions on reinsurance premiums ceded are earned in a manner consistent with the recognition of the direct acquisition costs of the underlying insurance policies, generally on a pro-rata basis over the terms of the policies reinsured.

Net investment income and net gains (losses) on investments: We invest in cash and cash equivalents, short-term investments, fixed-maturity and equity securities. Our net investment income includes interest and dividends earned on our invested assets, less investment expenses. Net realized gains and losses on our investments are reported separately from our net investment income. Net realized gains occur when our investment securities are sold for more than their costs or amortized costs, as applicable. Net realized losses occur when our investment securities are sold for less than their costs or amortized costs, as applicable, or are written down as a result of other-than-temporary impairment. We classify our fixed-maturity securities as either available-for-sale or held-to-maturity. Net unrealized gains (losses) on those securities classified as available-for-sale are reported separately within accumulated other comprehensive income on our balance sheet while our equity securities and other investments report changes in fair value through earnings. See Note 2 in the accompanying Consolidated Financial Statements for further discussion over our accounting policies following Item 16 of this Annual Report.

Other income: We recognize installment fee income and fees charged to reinstate a policy after it has been cancelled for non-payment.

Loss and loss adjustment expenses incurred: Loss and LAE incurred represent our largest expense item, and for any given reporting period include estimates of future claim payments, changes in those estimates from prior reporting periods and costs associated with investigating, defending and servicing claims. These expenses fluctuate based on the amount and types of risks we insure. We record loss and LAE related to estimates of future claim payments based on case-by-case valuations, statistical analyses and actuarial procedures. We seek to establish all reserves at the most likely ultimate liability based on our historical claims experience. It is typical for certain claims to take several years to settle and we revise our estimates as we receive additional information on such claims. Our ability to estimate loss and LAE accurately at the time of pricing our insurance policies is a critical factor affecting our profitability.

Commission expenses and other underwriting expenses: Other underwriting expenses include policy acquisition costs and other expenses related to the underwriting of policies. Policy acquisition costs represent the costs of originating new insurance policies that vary with, and are primarily related to, the production of insurance policies (principally commissions, premium taxes and certain underwriting salaries). Policy acquisition costs are deferred and recognized as expense as the related premiums are earned. Other underwriting expenses represent general and administrative expenses of our insurance business and are comprised of other costs associated with our insurance activities such as regulatory fees, telecommunication and technology costs, occupancy costs, employment costs, and legal and auditing fees.

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

Stock-based compensation: Non-cash equity compensation includes the fair value of stock grants issued to our directors, officers and employees, and amortization of stock options issued to the same.

Depreciation and amortization: Depreciation and amortization includes the amortization of intangibles related to the acquisition of KICO, depreciation of the real estate used in KICO's operations, as well as depreciation of capital expenditures for information technology projects, office equipment and furniture.

Interest expense: Interest expense represents amounts we incur on our outstanding indebtedness at the applicable interest rates. Interest expense also includes amortization of debt discount and issuance costs.

Income tax expense: We incur federal income tax expense on our condensed consolidated operations as well as state income tax expense for our non-insurance underwriting subsidiaries.

Product Lines

Our product lines include the following:

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

Commercial 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 for these lines are being non-renewed at the end of their current annual terms. For the twelve months ended December 31, 2019, these policies represent approximately 10.7% of net premiums earned and as of December 31, 2019, 42.8% 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.

Distribution Channels

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

(\$ in thousands)	Year ended	
	December 31, 2019	
Direct Written Pemiums	Amount	Percent
Core Independent	\$ 120,625	80.6%
Expansion Independent (1)	24,253	16.2%
Alternative Distribution through Cosi	4,799	3.2%
Total	\$ 149,677	100.0%

(2) Outside of New York

For the year ended December 31, 2019, Alternative Distribution made up 3.2% of direct written premiums for our homeowners and dwelling fire components of personal lines.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements include the accounts of Kingstone Companies, Inc. and all majority-owned and controlled subsidiaries. The preparation of financial statements in conformity with GAAP requires our management to make estimates and assumptions in certain circumstances that affect amounts reported in our condensed consolidated financial statements and related notes. In preparing these condensed consolidated financial statements, our management has utilized information including our past history, industry standards, 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.

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 Consolidated Financial Statements following Item 16 of this Annual Report.

Consolidated Results of Operations

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

(\$ in thousands)	Year ended December 31,			
	2019	2018	Change	Percent
Revenues				
Direct written premiums	\$ 171,214	\$ 146,716	\$ 24,498	16.7%
Assumed written premiums	1	1	-	n/a%
	<u>171,215</u>	<u>146,717</u>	<u>24,498</u>	<u>16.7%</u>
Ceded written premiums				
Ceded to quota share treaties in force during the period	7,623	15,880	(8,257)	(52.0)%
Unearned premiums ceded to new quota share treaty (1)	16,320	-	16,320	n/a%
Return of premiums previously ceded to prior quota share treaties (1)	-	(4,553)	4,553	n/a%
	<u>23,943</u>	<u>11,327</u>	<u>12,616</u>	<u>111.4%</u>
Ceded to excess of loss treaties	1,879	1,386	493	35.6%
Ceded to catastrophe treaties	19,814	14,210	5,604	39.4%
Total ceded written premiums	<u>45,636</u>	<u>26,923</u>	<u>18,713</u>	<u>69.5%</u>
Net written premiums	<u>125,579</u>	<u>119,794</u>	<u>5,785</u>	<u>4.8%</u>
Change in unearned premiums				
Direct and assumed	(11,351)	(13,384)	2,033	(15.2)%
Ceded to quota share treaties	13,395	(2,995)	16,390	(547.2)%
Change in net unearned premiums	<u>2,044</u>	<u>(16,379)</u>	<u>18,423</u>	<u>(112.5)%</u>
Premiums earned				
Direct and assumed	159,864	133,333	26,531	19.9%
Ceded to reinsurance treaties	(32,240)	(29,918)	(2,322)	7.8%
Net premiums earned	<u>127,624</u>	<u>103,415</u>	<u>24,209</u>	<u>23.4%</u>
Ceding commission revenue				
Excluding the effect of catastrophes	4,651	5,792	(1,141)	(19.7)%
Effect of catastrophes	-	(459)	459	n/a%
Total ceding commission revenue	<u>4,651</u>	<u>5,333</u>	<u>(682)</u>	<u>(12.8)%</u>
Net investment income	6,869	6,186	683	11.0%
Net gains (losses) on investments	4,591	(2,496)	7,087	(283.9)%
Other income	1,828	1,334	494	37.0%
Total revenues	<u>145,563</u>	<u>113,772</u>	<u>31,791</u>	<u>27.9%</u>
Expenses				
Loss and loss adjustment expenses				
Direct and assumed:				
Loss and loss adjustment expenses excluding the effect of catastrophes	94,775	61,950	32,825	53.0%
Losses from catastrophes (2)	8,177	10,828	(2,651)	(24.5)%
Total direct and assumed loss and loss adjustment expenses	<u>102,952</u>	<u>72,778</u>	<u>30,174</u>	<u>41.5%</u>
Ceded loss and loss adjustment expenses:				
Loss and loss adjustment expenses excluding the effect of catastrophes	12,287	9,882	2,405	24.3%
Losses from catastrophes (2)	482	4,600	(4,118)	(89.5)%
Total ceded loss and loss adjustment expenses	<u>12,769</u>	<u>14,482</u>	<u>(1,713)</u>	<u>(11.8)%</u>
Net loss and loss adjustment expenses:				
Loss and loss adjustment expenses excluding the effect of catastrophes	82,488	52,068	30,420	58.4%
Losses from catastrophes (2)	7,695	6,228	1,467	23.6%
Net loss and loss adjustment expenses	<u>90,183</u>	<u>58,296</u>	<u>31,887</u>	<u>54.7%</u>
Commission expense	30,193	25,342	4,851	19.1%
Other underwriting expenses	24,420	20,943	3,477	16.6%
Other operating expenses	4,178	2,575	1,603	62.3%
Depreciation and amortization	2,546	1,787	759	42.5%
Interest expense	1,826	1,822	4	0.2%
Total expenses	<u>153,346</u>	<u>110,765</u>	<u>42,581</u>	<u>38.4%</u>
(Loss) income before taxes	(7,783)	3,006	(10,789)	(358.9)%
Income tax benefit	(1,816)	(86)	(1,730)	2,011.6%
Net (loss) income	<u>\$ (5,967)</u>	<u>\$ 3,092</u>	<u>\$ (9,059)</u>	<u>(293.0)%</u>

(1) Effective July 1, 2018, we decreased the quota share ceding rate in our personal lines quota share treaty from 20% to 10%. Effective July 1, 2019, our personal lines 10% quota share treaty expired on a run-off basis. Effective December 15, 2019, we entered into a 25% quota share treaty.

(2) The years ended December 31, 2019 and 2018 includes catastrophe losses, which are defined as losses from an event for which a catastrophe bulletin and related serial number has been issued by the Property Claims Services (PCS) unit of the Insurance Services Office (ISO). PCS catastrophe bulletins are issued for events that cause more than \$25 million in total insured losses and affect a significant number of policyholders and insurers.

	Years ended December 31,			
	2019	2018	Percentage Point Change	Percent Change
Key ratios:				
Net loss ratio	70.7%	56.4%	14.3	25.4%
Net underwriting expense ratio	38.1%	38.4%	(0.3)	(0.8)%
Net combined ratio	108.8%	94.8%	14.0	14.8%

Direct Written Premiums

Direct written premiums during the year ended December 31, 2019 (“Year Ended 2019”) were \$171,214,000 compared to \$146,716,000 during the year ended December 31, 2018 (“Year Ended 2018”). The increase of \$24,498,000, or 16.7%, was primarily due to an increase in policies in-force during Year Ended 2019 as compared to Year Ended 2018. We wrote more new policies as a result of continued demand for our products in the markets that we serve. Policies in-force increased by 14.1% as of December 31, 2019 compared to December 31, 2018.

In Year Ended 2018, we started writing homeowners policies in Massachusetts. In the Year Ended 2019, we started writing homeowners policies in 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 \$25,647,000 in Year Ended 2019 compared to \$9,080,000 in Year Ended 2018.

Net Written Premiums and Net Premiums Earned

Through June 30, 2019, our quota share reinsurance treaties were on a July 1 through June 30 fiscal year basis. 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 31, 2020 (“2019/2020 Treaty”). In addition to the 2019/2020 Treaty, our personal lines quota share reinsurance treaties in effect for Year Ended 2019 and Year Ended 2018 were covered under a treaty covering a two-year period from July 1, 2017 through June 30, 2019 (“2017/2019 Treaty”). The following table describes the quota share reinsurance ceding rates in effect for each treaty year during Year Ended 2019 and Year Ended 2018 under the 2019/2020 Treaty and the 2017/2019 Treaty, respectively. This table should be referred to in conjunction with the discussions for net written premiums, net premiums earned, ceding commission revenue and net loss and loss adjustment expenses that follow.

	Year ended December 31, 2019			Year ended December 31, 2018	
	January 1, to June 30, ("2018/2019 Treaty Year")	July 1, to December 14, ("2019/2020 Run-off Year")	December 15, to December 31, ("2019/2020 Treaty")	January 1, to June 30, ("2017/2018 Treaty Year")	July 1, to December 31, ("2018/2019 Treaty Year")
Quota share reinsurance rates					
Personal lines	10% (1)	0% (2)	25% (3)	20% (1)	10% (1)

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

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

(3) The 2019/2020 Treaty was effective December 15, 2019 with a quota share reinsurance rate of 25%.

See “Reinsurance” below for changes to our personal lines quota share treaty effective December 15, 2019, and July 1, 2019, 2018 and 2017.

Net written premiums increased \$5,785,000, or 4.8%, to \$125,579,000 in Year Ended 2019 from \$119,794,000 in Year Ended 2018. Net written premiums include direct and assumed premiums, less the amount of written premiums ceded under our reinsurance treaties (quota share, excess of loss, and catastrophe). Our personal lines business was subject to the 2017/2019 Treaty under the 2018/2019 Treaty Year through June 30, 2019. Following June 30, 2019, any earned premium and associated claims for policies still inforce will continue to be ceded under the 10% quota share rate until such policies expire (run-off) over the next year. The 2019 Run-off period is from July 1, 2019 through June 30, 2020 and there is no return of unearned premiums under this arrangement. The 2018 Cut-off on July 1, 2018 resulted in a \$4,553,000 return of unearned premiums from our reinsurers that were previously ceded under the expiring personal lines quota share treaty.

The table below shows the effect of the changes in quota share treaties on net written premiums for Year Ended 2019 and Year Ended 2018, respectively:

(\$ in thousands)	Years ended December 31,			
	2019	2018	Change	Percent
Net written premiums	\$ 125,579	\$ 119,794	\$ 5,785	4.8%
Unearned premiums ceded to 2019/2020 Treaty	16,320	-	16,320	na %
Return of premiums previously ceded to prior quota share treaties	-	(4,553)	4,553	na %
Net written premiums without the effect of changes in quota share treaties	\$ 141,899	\$ 115,241	\$ 26,658	23.1%

Without the effect of changes in quota share treaties, net written premiums increased by \$26,658,000, or 23.1%, in Year Ended 2019 compared to Year Ended 2018.

Excess of loss reinsurance treaties

An increase in written premiums will increase the premiums ceded under our excess of loss treaties. In Year Ended 2019, our ceded excess of loss reinsurance premiums increased by \$493,000 over the comparable ceded premiums for Year Ended 2018. The increase was due to an increase in premiums subject to excess of loss reinsurance.

Catastrophe reinsurance treaty

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 Year Ended 2019, our premiums ceded under catastrophe treaties increased by \$5,604,000 over the comparable ceded premiums in Year Ended 2018. The change was due to an increase in our catastrophe limit purchased, an increase in premiums subject to catastrophe reinsurance due to continued growth, and an increase in reinsurance rates effective July 1, 2019. Our ceded catastrophe premiums are paid based on the total direct written premiums subject to the catastrophe reinsurance treaty.

Our ceded catastrophe premiums are paid based on the total direct written premiums subject to the catastrophe reinsurance treaty.

Net premiums earned

Net premiums earned increased \$24,209,000, or 23.4%, to \$127,624,000 in Year Ended 2019 from \$103,415,000 in Year Ended 2018. The increase was due to the increase in written premiums discussed above and our retaining more earned premiums effective: (1) July 1, 2019 as a result of the expiration and non-renewal of the 2017/2019 Treaty, and (2) July 1, 2018, as a result of the reduction in the quota share reinsurance rates. The 2019/2020 Treaty in effect as of December 15, 2019 had very little impact on net premiums earned due to the short amount of time it was in effect during Year Ended 2019.

Ceding Commission Revenue

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

(\$ in thousands)	Years ended December 31,			
	2019	2018	Change	Percent
Provisional ceding commissions earned	\$ 5,446	\$ 6,746	\$ (1,300)	(19.3)%
Contingent ceding commissions earned				
Contingent ceding commissions earned excluding the effect of catastrophes	(795)	(954)	159	(16.7)%
Effect of catastrophes on ceding commissions earned	-	(459)	459	n/a
Contingent ceding commissions earned	(795)	(1,413)	618	(43.7)%
Total ceding commission revenue	\$ 4,651	\$ 5,333	\$ (682)	(12.8)%

Ceding commission revenue was \$4,651,000 in Year Ended 2019 compared to \$5,333,000 in Year Ended 2018. The decrease of \$682,000, or 12.8%, was due to a decrease in provisional ceding commissions earned, partially offset by an increase in contingent ceding commissions earned. The reduction in provisional ceding commissions occurred due to the reduction in quota share reinsurance rates through December 15, 2019 (see below for discussion of provisional ceding commissions earned and contingent ceding commissions earned).

Provisional Ceding Commissions Earned

We receive a provisional ceding commission based on ceded written premiums. The \$1,300,000 decrease in provisional ceding commissions earned is primarily due to: (1) the decrease in the quota share ceding rate effective July 1, 2018 to 10%, from the 20% rate in effect from July 1, 2017 through June 30, 2018, and (2) the elimination of the 10% quota share effective July 1, 2019. There was a reduction in ceded premiums in Year Ended 2019 available from which to earn ceding commissions compared to Year Ended 2018 due to the changes in quota share ceding rates. The decrease in provisional ceding commissions was partially offset by an increase in personal lines direct written premiums subject to the quota share. The 2019/2020 Treaty in effect as of December 15, 2019 had very little impact on provisional ceding commissions earned due to the short amount of time it was in effect during Year Ended 2019.

Contingent Ceding Commissions Earned

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

The 2017/2019 Treaty structure limits the amount of contingent ceding commissions that we can receive by setting a higher provisional commission rate than the rates received in prior years. As a result of the higher upfront provisional ceding commissions that we received under the 2017/2019 Treaty, there is not an opportunity to earn additional contingent ceding commissions under this treaty. Under the 2017/2019 Treaty "net" treaty structure, catastrophe losses in excess of the \$5,000,000 retention will fall outside of the quota share treaty and such losses will not have an impact on contingent ceding commissions. In Year Ended 2018, catastrophe losses of \$1,506,000 were ceded under our personal lines quota share treaty. These catastrophe losses resulted in the Loss Ratios for the period July 1, 2017 through June 30, 2018 (attributable to the 2017/2019 Treaty) being higher than the contractual Loss Ratio at which provisional ceding commissions were being earned. As a result, we incurred a reduction to the contingent ceding commissions of \$459,000 relative to what would have been earned had the catastrophe losses not occurred. Effective July 1, 2018, the provisional ceding commission rate was a fixed rate with no downward adjustment required related to Loss Ratio; accordingly, in Year Ended 2019, catastrophe losses of \$927,000 that were ceded under our personal lines quota share treaty did not have an effect on contingent ceding commissions. See "Reinsurance" below for information as to our personal lines quota share treaty effective December 15, 2019, and July 1, 2019, 2018 and 2017.

Net Investment Income

Net investment income was \$6,869,000 in Year Ended 2019 compared to \$6,186,000 in Year Ended 2018. The increase of \$683,000, or 11.0%, was due to an increase in average invested assets in Year Ended 2019. The average yield on invested assets was 3.51% as of December 31, 2019 compared to 3.79% as of December 31, 2018. The pre-tax equivalent yield on invested assets was 3.26% and 3.44% as of December 31, 2019 and 2018, respectively.

Cash and invested assets were \$231,700,000 as of December 31, 2019, compared to \$195,567,000 as of December 31, 2018. The \$36,133,000 increase in cash and invested assets resulted primarily from increased operating cash flows for the Year Ended 2019.

Net Gains and Losses on Investments

Net gains on investments were \$4,591,000 in Year Ended 2019 compared to a net loss of \$2,496,000 in Year Ended 2018. Unrealized gains on our equity securities and other investments in Year Ended 2019 were \$4,562,000, compared to unrealized losses of \$2,383,000 in Year Ended 2018. Realized gains on sales of investments were \$29,000 in Year Ended 2019 compared to realized losses of \$94,000 in Year Ended 2018.

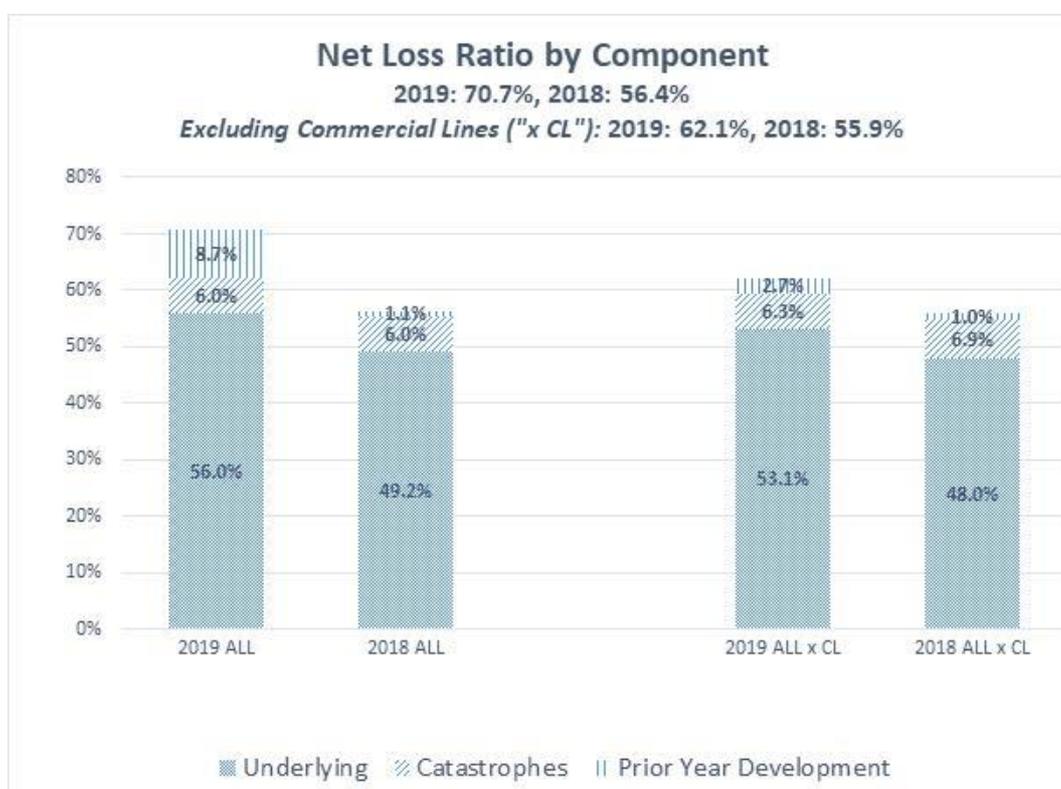
Other Income

Other income was \$1,828,000 in Year Ended 2019 compared to \$1,334,000 in Year Ended 2018. The increase of \$494,000, or 37.0%, was primarily due to an increase in installment and other fees earned in our insurance underwriting business.

Net Loss and LAE

Net loss and LAE was \$90,182,000 in Year Ended 2019 compared to \$58,295,000 in Year Ended 2018. The net loss ratio was 70.7% in 2019 compared to 56.4% in 2018, an increase of 14.3 percentage points.

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



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

The net loss ratio was 70.7% for Year Ended 2019, a 14.3 point increase compared to Year Ended 2018. The loss ratio for Year Ended 2019 is elevated primarily due to prior year loss development of \$11.1 million, which has an 8.7 point effect on the loss ratio. This compares to 1.1 points of prior year loss development in Year Ended 2018, or an increase of 7.6 points from the impact of prior year loss development. Unfavorable claim resolution trends led to a complete review of open liability case reserves by new claims leadership in Year Ended 2019. The review determined that case reserve strengthening was required and resulted in adjustments to ultimate loss projections, primarily for commercial liability claims. Of the \$11.1 million of prior year loss development for the year, \$8.1 million was from commercial liability claims. The case reserve adjustments underscored the volatility of our commercial lines business, and contributed to our decision to stop writing these risks. The prior year loss development significantly increased the ultimate loss ratio projections for the commercial lines business in accident years 2014 and forward leading to the conclusion that these lines are not returning the required level of profitability to be viable going forward. Excluding commercial lines, prior year development for Year Ended 2019 had a 2.7 point impact on our loss ratio, compared to a 1.0 point impact from prior year loss development for Year Ended 2018. Most of the prior year loss development outside of commercial liability claims was related to liability claims in our New York Dwelling Fire product.

The impact of catastrophes was 6.0 points in Year Ended 2019, unchanged from the impact from catastrophes in Year Ended 2018. Although the impact from catastrophes was the same in each year, both years had a catastrophe impact significantly above the Company's long-term average. The average catastrophe impact for the five years ending in 2018 has been 3.8 points. There were nine PCS catastrophe events affecting Kingstone in Year Ended 2019, but 56% of net losses or 3.4 points of the impact relates to the first winter freeze event in Mid-January.

The underlying loss ratio excluding the impact of catastrophes and prior year loss development was 56.0% for Year Ended 2019, an increase of 6.8 points from the 49.2% underlying loss ratio recorded for Year Ended 2018. The underlying loss ratio increased compared to Year Ended 2018 due to continued increases in average claim severity for non-weather water damage property claims as well as increased large fire claim activity. In addition, the underlying loss ratio for Year Ended 2019 is affected by increased loss ratio expectations for commercial lines as a result of increases in prior year loss ratio estimates for that business as noted above. Excluding commercial lines, the underlying loss ratio excluding the impact of catastrophes and prior year development for Year Ended 2019 was 53.1%, an increase of 5.1 points from the 48.0% underlying loss ratio recorded for Year Ended 2018. See table below under "Additional Financial Information" summarizing net loss ratios by line of business.

Commission Expense

Commission expense was \$30,193,000 in Year Ended 2019 or 18.9% of direct earned premiums. Commission expense was \$25,342,000 in Year Ended 2018 or 19.0% of direct earned premiums. The increase of \$4,851,000 is due to the increase in direct written premiums in Year Ended 2019 as compared to Year Ended 2018.

Other Underwriting Expenses

Other underwriting expenses were \$24,420,000 in Year Ended 2019 compared to \$20,943,000 in Year Ended 2018. The increase of \$3,477,000, or 16.6%, was primarily due to expenses related to growth in direct written premiums. Expenses directly related to the increase in direct written premiums primarily consist of underwriting expenses, software usage fees, and state premium taxes. Expenses indirectly related to the increase in direct written premiums primarily consist of salaries along with related other employment costs. The other underwriting expense increase of 16.6 points was less than the 16.7 point increase in total direct written premiums.

Our largest single component of other underwriting expenses is salaries and employment costs, with costs of \$10,358,000 in Year Ended 2019 compared to \$9,280,000 in Year Ended 2018. The increase of \$1,078,000, or 11.6%, was less than the 16.7% increase in total direct written premiums. The increase in employment costs was due to hiring of additional staff to service our current level of business and anticipated growth in volume, as well as annual increases in salaries.

Our net underwriting expense ratio in Year Ended 2019 was 38.1% compared to 38.4% in Year Ended 2018. The following table shows the individual components of our net underwriting expense ratio for the periods indicated:

	Year ended December 31,		Percentage Point Change
	2019	2018	
Other underwriting expenses			
Employment costs	8.1%	9.0%	(0.9)
Underwriting fees (inspections/data services)	2.4	2.4	-
Other expenses	8.6	8.9	(0.3)
Total other underwriting expenses	19.1	20.3	(1.2)
Ceding commission revenue			
Provisional	(4.3)	(6.5)	2.2
Contingent	0.6	1.4	(0.8)
Total ceding commission revenue	(3.7)	(5.1)	1.4
Other income	(1.0)	(1.2)	0.2
Commission expense	23.7	24.4	(0.7)
Net underwriting expense ratio	38.1%	38.4%	(0.3)

The 1.2 percentage point decrease in our other underwriting expense ratio was driven by a decline of 0.9 percentage points from the impact of employment costs.

The overall 2.2 percentage point increase in provisional ceding commissions was driven entirely by the change in our quota share ceding rates and its impact on provisional ceding commission revenue due to the additional retention resulting from the cut-off to our quota share treaty on July 1, 2018 and run-off to our expired quota share treaty on July 1, 2019. Additionally, through December 15, 2019 we had a reduction in our quota share reinsurance rates resulting in a reduction of provisional ceding commissions. The components of our net underwriting expense ratio related to other underwriting expenses, other income and commissions improved in nearly all categories, resulting in an overall 0.3 percentage point decrease in the net underwriting expense ratio.

Other Operating Expenses

Other operating expenses, related to the expenses of our holding company and Cosi, were \$4,178,000 for Year Ended 2019 compared to \$2,575,000 for Year Ended 2018. The increase in Year Ended 2019 of \$1,603,000, or 62.3%, as compared to Year Ended 2018 was primarily due to increases in equity compensation and salaries, partially offset by a decrease in executive bonuses. The increase in salary was due to the initial hiring of staff for Cosi and the increase in equity compensation was due to 2019 annual restricted stock awards to directors and executives. Executive bonus compensation is accrued pursuant to the employment agreement in effect through December 31, 2019 with Barry B. Goldstein, our Executive Chairman and current Chief Executive Officer. The bonus is a one-time payment computed at the end of the three-year period ended December 31, 2019, and as of December 31, 2019 the three-year computation did not meet the required terms of profitability, resulting in no payment and a reversal of the \$698,000 previously accrued.

Depreciation and Amortization

Depreciation and amortization was \$2,546,000 in Year Ended 2019 compared to \$1,787,000 in Year Ended 2018. The increase of \$759,000, or 42.5%, in depreciation and amortization was primarily due to depreciation of our new systems platform for handling business being written in Expansion states. The increase was also impacted by newly purchased assets used to upgrade our systems infrastructure and improvements to the Kingston, New York home office building from which we operate.

Interest Expense

Interest expense in Year Ended 2019 was \$1,826,000 and \$1,822,000 in Year Ended 2018. We incurred interest expense in connection with our \$30.0 million issuance of long-term debt in December 2017.

Income Tax Benefit

Income tax benefit in Year Ended 2019 was \$1,816,000, which resulted in an effective tax rate of 23.3%. Income tax benefit in Year Ended 2018 was \$86,000, which resulted in an effective tax rate of (2.9)%. Loss before taxes was \$7,783,000 in Year Ended 2019 compared to income before taxes of \$3,007,000 in Year Ended 2018.

Net Income (Loss)

Net loss was \$5,967,000 in Year Ended 2019 compared to net income of \$3,093,000 in Year Ended 2018. The decrease in net income of \$9,060,000, or 292.9%, was due to the circumstances described above, which caused the increase in our net loss ratio, decrease in ceding commission revenue, increases in other underwriting expenses, and depreciation and amortization, partially offset by the increase in our net premiums earned, net investment income and net gains on investments.

Additional Financial Information

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

	Years ended December 31,	
	2019	2018
Gross premiums written:		
Personal lines	\$ 149,920,020	\$ 119,971,418
Livery physical damage	10,576,156	9,792,456
Other(1)	593,945	251,190
Total without commercial lines	161,090,121	130,015,064
Commercial lines (in run-off effective July 2019)(2)	10,124,908	16,702,409
Total gross premiums written	<u>\$ 171,215,029</u>	<u>\$ 146,717,473</u>
Net premiums written:		
Personal lines(3)	\$ 105,774,168	\$ 94,993,035
Livery physical damage	10,576,156	9,792,456
Other(1)	549,978	228,551
Total without commercial lines	116,900,302	105,014,042
Commercial lines (in run-off effective July 2019)(2)	8,678,829	14,779,752
Total net premiums written	<u>\$ 125,579,131</u>	<u>\$ 119,793,794</u>
Net premiums earned:		
Personal lines(3)	\$ 102,943,699	\$ 79,603,364
Livery physical damage	10,565,739	9,797,939
Other(1)	518,671	209,128
Total without commercial lines	114,028,109	89,610,431
Commercial lines (in run-off effective July 2019)(2)	13,595,333	13,804,284
Total net premiums earned	<u>\$ 127,623,442</u>	<u>\$ 103,414,715</u>
Net loss and loss adjustment expenses(4):		
Personal lines	\$ 62,157,739	\$ 43,287,170
Livery physical damage	5,209,065	4,211,273
Other(1)	605,994	334,015
Unallocated loss adjustment expenses	2,846,248	2,242,365
Total without commercial lines	70,819,046	50,074,823
Commercial lines (in run-off effective July 2019)(2)	19,363,278	8,220,382
Total net loss and loss adjustment expenses	<u>\$ 90,182,324</u>	<u>\$ 58,295,205</u>
Net loss ratio(4):		
Personal lines	60.4%	54.4%
Livery physical damage	49.3%	43.0%
Other(1)	116.8%	159.7%
Total without commercial lines	62.1%	55.9%
Commercial lines (in run-off effective July 2019)(2)	142.4%	59.5%
Total	70.7%	56.4%

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

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

(3) See discussions above with regard to "Net Written Premiums and Net Premiums Earned", as to changes in quota share ceding rates, effective July 1, 2019 and 2018.

(4) See discussions above with regard to "Net Loss and LAE", as to catastrophe losses in the years ended December 31, 2019 and 2018.

Insurance Underwriting Business on a Standalone Basis

Our insurance underwriting business reported on a standalone basis for the years ended December 31, 2019 and 2018 follows:

	Years ended	
	December 31,	
	2019	2018
Revenues		
Net premiums earned	\$ 127,623,442	\$ 103,414,715
Ceding commission revenue	4,650,851	5,332,630
Net investment income	6,821,248	6,037,441
Net gains (losses) on investments	4,495,230	(2,439,026)
Other income	1,306,820	1,266,654
Total revenues	144,897,591	113,612,414
Expenses		
Loss and loss adjustment expenses	90,182,324	58,295,205
Commission expense	30,193,175	25,342,137
Other underwriting expenses	24,420,208	20,943,342
Depreciation and amortization	2,446,959	1,787,150
Total expenses	147,242,666	106,367,834
(Loss) income from operations	(2,345,075)	7,244,580
Income tax (benefit) expense	(785,784)	1,387,508
Net (loss) income	\$ (1,559,291)	\$ 5,857,072
Key Measures:		
Net loss ratio	70.7%	56.4%
Net underwriting expense ratio	38.1%	38.4%
Net combined ratio	108.8%	94.8%
Acquisition costs and other underwriting expenses	\$ 54,613,383	\$ 46,285,479
Less: Ceding commission revenue	(4,650,851)	(5,332,630)
Less: Other income	(1,306,820)	(1,266,654)
Net underwriting expenses	\$ 48,655,712	\$ 39,686,195
Net premiums earned	\$ 127,623,442	\$ 103,414,715
Net Underwriting Expense Ratio	38.1%	38.4%

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

	<u>Direct</u>	<u>Assumed</u>	<u>Ceded</u>	<u>Net</u>
Year ended December 31, 2019				
Written premiums	\$ 171,214,091	\$ 939	\$ (45,635,899)	\$ 125,579,131
Change in unearned premiums	(11,350,864)	(243)	13,395,418	2,044,311
Earned premiums	<u>\$ 159,863,227</u>	<u>\$ 696</u>	<u>\$ (32,240,481)</u>	<u>\$ 127,623,442</u>
Loss and loss adjustment expenses excluding the effect of catastrophes				
Catastrophe loss	\$ 94,776,624	\$ (1,813)	\$ (12,287,304)	\$ 82,487,507
Loss and loss adjustment expenses	8,176,529	-	(481,712)	7,694,817
	<u>\$ 102,953,153</u>	<u>\$ (1,813)</u>	<u>\$ (12,769,016)</u>	<u>\$ 90,182,324</u>
Loss ratio excluding the effect of catastrophes				
Catastrophe loss	59.3%	-260.5%	38.1%	64.7%
Loss ratio	5.1%	0.0%	1.5%	6.0%
	<u>64.3%</u>	<u>-260.5%</u>	<u>39.6%</u>	<u>70.7%</u>
Year ended December 31, 2018				
Written premiums	\$ 146,716,468	\$ 1,004	\$ (26,923,679)	\$ 119,793,793
Change in unearned premiums	(13,388,535)	4,067	(2,994,610)	(16,379,078)
Earned premiums	<u>\$ 133,327,933</u>	<u>\$ 5,071</u>	<u>\$ (29,918,289)</u>	<u>\$ 103,414,715</u>
Loss and loss adjustment expenses excluding the effect of catastrophes				
Catastrophe loss	\$ 61,921,559	\$ 28,237	\$ (9,882,474)	\$ 52,067,322
Loss and loss adjustment expenses	10,828,121	-	(4,600,238)	6,227,883
	<u>\$ 72,749,680</u>	<u>\$ 28,237</u>	<u>\$ (14,482,712)</u>	<u>\$ 58,295,205</u>
Loss ratio excluding the effect of catastrophes				
Catastrophe loss	46.4%	556.8%	33.0%	50.3%
Loss ratio	8.1%	0.0%	15.4%	6.0%
	<u>54.6%</u>	<u>556.8%</u>	<u>48.4%</u>	<u>56.4%</u>

The key measures for our insurance underwriting business for the years ended December 31, 2019 and 2018 are as follows:

	Years ended	
	December 31,	
	2019	2018
Net premiums earned	\$ 127,623,442	\$ 103,414,715
Ceding commission revenue	4,650,851	5,332,630
Other income	1,306,820	1,266,654
Loss and loss adjustment expenses (1)	90,182,324	58,295,205
Acquisition costs and other underwriting expenses:		
Commission expense	30,193,175	25,342,137
Other underwriting expenses	24,420,208	20,943,342
Total acquisition costs and other underwriting expenses	54,613,383	46,285,479
Underwriting (loss) income	\$ (11,214,594)	\$ 5,433,315
Key Measures:		
Net loss ratio excluding the effect of catastrophes	64.6%	50.4%
Effect of catastrophe loss on net loss ratio (1)	6.1%	6.0%
Net loss ratio	70.7%	56.4%
Net underwriting expense ratio excluding the effect of catastrophes	38.1%	37.9%
Effect of catastrophe loss on net underwriting expense ratio (2)	0.0%	0.5%
Net underwriting expense ratio	38.1%	38.4%
Net combined ratio excluding the effect of catastrophes	102.7%	88.3%
Effect of catastrophe loss on net combined ratio (1) (2)	6.1%	6.5%
Net combined ratio	108.8%	94.8%
Reconciliation of net underwriting expense ratio:		
Acquisition costs and other underwriting expenses	\$ 54,613,383	\$ 46,285,479
Less: Ceding commission revenue (2)	(4,650,851)	(5,332,630)
Less: Other income	(1,306,820)	(1,266,654)
	\$ 48,655,712	\$ 39,686,195
Net earned premium	\$ 127,623,442	\$ 103,414,715
Net Underwriting Expense Ratio	38.1%	38.4%

(1) For the year ended December 31, 2019 and 2018, includes the sum of net catastrophe losses and loss adjustment expenses of \$7,694,817 and \$6,227,883, respectively.

(2) For the year ended December 31, 2018, the effect of catastrophe loss on our net underwriting expense ratio includes the direct effect of reduced contingent ceding commission revenue by \$459,068 and does not include the indirect effects of a \$124,817 decrease in other underwriting expenses.

Investments

Portfolio Summary

The following table presents a breakdown of the amortized cost, aggregate estimated fair value and unrealized gains and losses by investment type as of December 31, 2019 and 2018:

Available-for-Sale Securities

Category	December 31, 2019					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	% of Estimated Fair Value
			Less than 12 Months	More than 12 Months		
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 7,037,856	\$ 23,244	\$ -	\$ -	\$ 7,061,100	4.2%
Political subdivisions of States, Territories and Possessions	9,151,293	181,835	(11,316)	-	9,321,812	5.5%
Corporate and other bonds						
Industrial and miscellaneous	119,874,573	5,777,624	(16,685)	(13,473)	125,622,039	74.7%
Residential mortgage and other asset backed securities (1)	26,138,633	437,841	(68,793)	(276,451)	26,231,230	15.6%
Total fixed-maturity securities	\$162,202,355	\$ 6,420,544	\$ (96,794)	\$ (289,924)	\$168,236,181	100.0%

(1) In 2017, KICO placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its relationship with the Federal Home Loan Bank of New York ("FHLBNY"). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from FHLBNY. As of December 31, 2019, the estimated fair value of the eligible investments was \$7,284,000. KICO will retain all rights regarding all securities if pledged as collateral. As of December 31, 2019, there was no outstanding balance on the FHLBNY credit line.

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

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

Equity Securities

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

Category	December 31, 2019				
	Cost	Gross Gains	Gross Losses	Estimated Fair Value	% of Estimated Fair Value
Equity Securities:					
Preferred stocks	\$ 8,374,424	\$ 339,257	\$ (11,794)	\$ 8,701,887	35.3%
Common stocks and exchange traded mutual funds	14,250,244	1,982,878	(273,627)	15,959,495	64.7%
Total	\$ 22,624,668	\$ 2,322,135	\$ (285,421)	\$ 24,661,382	100.0%

Category	December 31, 2018				
	Cost	Gross Gains	Gross Losses	Estimated Fair Value	% of Estimated Fair Value
Equity Securities:					
Preferred stocks	\$ 6,694,754	\$ -	\$ (541,798)	\$ 6,152,956	37.1%
Common stocks and exchange traded mutual funds	11,611,232	99,817	(1,291,389)	10,419,660	62.9%
Total	\$ 18,305,986	\$ 99,817	\$ (1,833,187)	\$ 16,572,616	100.0%

Other Investments

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

Category	December 31, 2019			December 31, 2018		
	Cost	Gross Gains	Estimated Fair Value	Cost	Gross Losses	Estimated Fair Value
Other Investments:						
Hedge fund	\$ 1,999,381	\$ 585,532	\$ 2,584,913	\$ 1,999,381	\$ (144,156)	\$ 1,855,225
Total	\$ 1,999,381	\$ 585,532	\$ 2,584,913	\$ 1,999,381	\$ (144,156)	\$ 1,855,225

Held-to-Maturity Securities

December 31, 2019						
Category	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	% of Estimated Fair Value
			Less than 12 Months	More than 12 Months		
U.S. Treasury securities	\$ 729,550	\$ 151,002	\$ -	\$ -	\$ 880,552	21.3%
Political subdivisions of States, Territories and Possessions	998,619	51,021	-	-	1,049,640	25.4%
Corporate and other bonds						
Industrial and miscellaneous	2,097,783	97,627	(835)	-	2,194,575	53.3%
Total	\$ 3,825,952	\$ 299,650	\$ (835)	\$ -	\$ 4,124,767	100.0%

December 31, 2018						
Category	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	% of Estimated Fair Value
			Less than 12 Months	More than 12 Months		
U.S. Treasury securities	\$ 729,507	\$ 147,532	\$ (3,964)	\$ -	\$ 873,075	19.7%
Political subdivisions of States, Territories and Possessions	998,803	33,862	-	-	1,032,665	23.3%
Corporate and other bonds						
Industrial and miscellaneous	2,494,545	38,461	(1,425)	(10,905)	2,520,676	57.0%
Total	\$ 4,222,855	\$ 219,855	\$ (5,389)	\$ (10,905)	\$ 4,426,416	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 estimated fair value of our investments in held-to-maturity securities by contractual maturity as of December 31, 2019 and 2018 is shown below:

Remaining Time to Maturity	December 31, 2019		December 31, 2018	
	Amortized	Estimated	Amortized	Estimated
	Cost	Fair Value	Cost	Fair Value
Less than one year	\$ 500,000	\$ 499,165	\$ -	\$ -
One to five years	2,099,268	2,215,640	2,996,685	3,036,531
Five to ten years	620,134	655,923	619,663	635,846
More than 10 years	606,550	754,039	606,507	754,039
Total	\$ 3,825,952	\$ 4,124,767	\$ 4,222,855	\$ 4,426,416

Credit Rating of Fixed-Maturity Securities

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

Rating	December 31, 2019		December 31, 2018	
	Estimated	Percentage of	Estimated	Percentage of
	Fair Market Value	Fair Market Value	Fair Market Value	Fair Market Value
U.S. Treasury securities	\$ 7,061,100	4.2%	\$ 8,220,381	5.4%
Corporate and municipal bonds				
AAA	1,996,676	1.2%	979,123	0.6%
AA	8,809,480	5.2%	8,350,910	5.5%
A	34,636,236	20.6%	27,665,961	18.2%
BBB	89,501,460	53.2%	85,095,907	56.1%
Total corporate and municipal bonds	134,943,852	80.2%	122,091,901	80.4%
Residential mortgage backed securities				
AAA	2,976,306	1.8%	999,640	0.7%
AA	18,440,382	10.9%	12,743,906	8.5%
A	2,471,761	1.5%	4,777,356	3.1%
CCC	1,174,273	0.7%	1,440,825	0.9%
CC	86,461	0.1%	109,648	0.1%
C	17,813	0.0%	24,050	0.0%
D	215,015	0.1%	390,542	0.3%
Non rated	849,218	0.5%	979,267	0.6%
Total residential mortgage backed securities	26,231,229	15.6%	21,465,234	14.2%
Total	\$ 168,236,181	100.0%	\$ 151,777,516	100.0%

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

Category	December 31, 2019	December 31, 2018
U.S. Treasury securities and obligations of U.S. government corporations and agencies	2.18%	2.20%
Political subdivisions of States, Territories and Possessions	3.26%	3.62%
Corporate and other bonds		
Industrial and miscellaneous	3.73%	4.11%
Residential mortgage backed securities	2.01%	1.94%
Total	3.37%	3.68%

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

	December 31, 2019	December 31, 2018
Weighted average effective maturity	4.8	5.6
Weighted average final maturity	6.3	6.9
Effective duration	4.3	4.6

Fair Value Consideration

As disclosed in Note 4 to the condensed consolidated financial statements, with respect to “Fair Value Measurements,” we define fair value as the price that would be received to sell an asset or paid to transfer a liability in a transaction involving identical or comparable assets or liabilities between market participants (an “exit price”). The fair value hierarchy distinguishes between inputs based on market data from independent sources (“observable inputs”) and a reporting entity’s internal assumptions based upon the best information available when external market data is limited or unavailable (“unobservable inputs”). The fair value hierarchy prioritizes fair value measurements into three levels based on the nature of the inputs. Quoted prices in active markets for identical assets have the highest priority (“Level 1”), followed by observable inputs other than quoted prices including prices for similar but not identical assets or liabilities (“Level 2”), and unobservable inputs, including the reporting entity’s estimates of the assumption that market participants would use, having the lowest priority (“Level 3”). As of December 31, 2019 and December 31, 2018, 80% and 81%, respectively, of the investment portfolio recorded at fair value was priced based upon quoted market prices.

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

Category	December 31, 2019							
	Less than 12 months			12 months or more			Total	
	Estimated	Unrealized	No. of	Estimated	Unrealized	No. of	Estimated	Unrealized
	Fair	Losses	Positions	Fair	Losses	Positions	Fair	Losses
	Value	Losses	Held	Value	Losses	Held	Value	Losses
Fixed-Maturity Securities:								
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ -	\$ -	-	\$ -	\$ -	-	\$ -	\$ -
Political subdivisions of States, Territories and Possessions	3,067,428	(11,316)	3	-	-	-	3,067,428	(11,316)
Corporate and other bonds industrial and miscellaneous	3,730,478	(16,685)	7	1,300,915	(13,473)	3	5,031,393	(30,158)
Residential mortgage and other asset backed securities	5,862,636	(68,793)	5	13,534,768	(276,451)	21	19,397,404	(345,244)
Total fixed-maturity securities	<u>\$ 12,660,542</u>	<u>\$ (96,794)</u>	<u>15</u>	<u>\$ 14,835,683</u>	<u>\$ (289,924)</u>	<u>24</u>	<u>\$ 27,496,225</u>	<u>\$ (386,718)</u>

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

There were 39 securities at December 31, 2019 that accounted for the gross unrealized loss, none of which were deemed by us to be other than temporarily impaired. There were 156 securities at December 31, 2018 that accounted for the gross unrealized loss, none of which were deemed by us to be other than temporarily impaired. Significant factors influencing our determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent not to sell these securities and it being not more likely than not that we will be required to sell these investments before anticipated recovery of fair value to our cost basis.

Liquidity and Capital Resources

Cash Flows

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

For the year ended December 31, 2019, the primary source of cash flow for our holding company was the dividends received from KICO, subject to statutory restrictions. For the year ended December 31, 2019, KICO paid dividends of \$7,000,000 to us.

KICO is a member of the Federal Home Loan Bank of New York ("FHLBNY"), which provides additional access to liquidity. Members have access to a variety of flexible, low cost funding through FHLBNY's credit products, enabling members to customize advances. Advances are to be fully collateralized; eligible collateral to pledge to FHLBNY includes residential and commercial mortgage backed securities, along with U.S. Treasury and agency securities. See Note 3 to our Consolidated Financial Statements – Investments, for eligible collateral held in a designated custodian account available for future advances. Advances are limited to 5% of KICO's net admitted assets as of the end of the previous quarter, which is September 30, 2019, and are due and payable within one year of borrowing. The maximum allowable advance as of December 31, 2019, based on the net admitted assets as of September 30, 2019, was approximately \$11,888,000. Advances are limited to 90% of the amount of available collateral, which was approximately \$6,556,000 as of December 31, 2019. There were no borrowings under this facility for the year ended December 31, 2019.

As of December 31, 2019, invested assets and cash in our holding company was approximately \$939,000. 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:

<i>Years Ended December 31,</i>	2019	2018
Cash flows provided by (used in):		
Operating activities	\$ 29,859,049	\$ 22,295,366
Investing activities	(14,973,699)	(43,401,314)
Financing activities	(3,632,268)	(6,137,282)
Net increase (decrease) in cash and cash equivalents	11,253,082	(27,243,230)
Cash and cash equivalents, beginning of period	21,138,403	48,381,633
Cash and cash equivalents, end of period	\$ 32,391,485	\$ 21,138,403

Net cash provided by operating activities was \$29,859,000 in Year Ended 2019 as compared to \$22,295,000 in Year Ended 2018. The \$7,564,000 increase in cash flows provided by operating activities in Year Ended 2019 was primarily a result of a decrease in net income (adjusted for non-cash items) of \$16,383,000, increases in other assets, accounts payable, accrued expenses and other liabilities of \$5,924,000, offset by an increase in net cash arising from insurance related items from KICO of \$18,023,000.

Net cash used in investing activities was \$14,974,000 in Year Ended 2019 compared to \$43,401,000 in Year Ended 2018. The \$28,427,000 decrease in net cash used in investing activities was the result of a \$38,463,000 decrease in acquisitions of invested assets and a \$8,827,000 decrease in sales or maturities of invested assets.

Net cash used in financing activities was \$3,632,000 in Year Ended 2019 compared to \$6,137,000 used in Year Ended 2018. The \$2,505,000 decrease in net cash used in financing activities was attributable to higher withholding taxes paid on net exercises of stock options, a purchase of \$540,000 in treasury stock in Year Ended 2018 as compared to none in Year Ended 2019 and a decrease in dividends paid to shareholders.

Reinsurance

The following table provides summary information with respect to each reinsurer that accounted for more than 10% of our reinsurance recoverables on paid and unpaid losses and loss adjustment expenses as of December 31, 2019:

(\$ in thousands)	A.M. Best Rating	Amount Recoverable as of December 31, 2019	%
Cavello Bay Reinsurance Limited	A-	\$ 6,463	30.6%
Swiss Reinsurance America Corporation	A+	5,754	27.3%
Hannover Rueck SE	A+	3,678	17.4%
		15,895	75.3%
Others		5,218	24.7%
Total		\$ 21,113	100.0%

Reinsurance recoverable from Cavello Bay Reinsurance Limited is secured pursuant to a collateralized trust agreement. Assets held in the trust are not included in our invested assets and investment income earned on this asset is credited to the reinsurer.

Through June 30, 2019, our quota share reinsurance treaties were on a July 1 through June 30 fiscal year basis. 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 31, 2020 ("2019/2020 Treaty").

Our quota share reinsurance treaties in effect during Years Ended 2019 and 2018 for our personal lines business, which primarily consists of homeowners' policies, were covered under the 2019/2020 Treaty and under a treaty covering a two-year period from July 1, 2017 through June 30, 2019 ("2017/2019 Treaty"). The treaty in effect during Year Ended 2019 was covered under the July 1, 2018 through June 30, 2019 treaty year ("2018/2019 Treaty Year") and since December 15, 2019, the 2019/2020 Treaty. The treaty in effect during Year Ended 2018 was covered under the July 1, 2017 through June 30, 2018 treaty year ("2017/2018 Treaty Year") and the 2018/2019 Treaty Year that began on July 1, 2018.

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

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

Line of Business	Treaty Year			
	December 15, 2019 to December 31, 2020	July 1, 2019 to December 14, 2019	July 1, 2018 to June 30, 2019	July 1, 2017 to June 30, 2018
Personal Lines:				
Homeowners, dwelling fire and and canine legal liability Quota share treaty:				
Percent ceded	25%	None	10%	20%

Line of Business	Treaty Year			
	December 15, 2019 to June 30, 2020	July 1, 2019 to December 14, 2019	July 1, 2018 to June 30, 2019	July 1, 2017 to June 30, 2018
Personal Lines:				
Homeowners, dwelling fire and and canine legal liability Quota share treaty:				
Risk retained on initial \$1,000,000 of losses	\$ 750,000	\$ 1,000,000	\$ 900,000	\$ 800,000
Losses per occurrence subject to quota share reinsurance coverage	\$ 1,000,000	None	\$ 1,000,000	\$ 1,000,000
Excess of loss coverage and facultative facility coverage (1)	9,000,000	9,000,000	9,000,000	9,000,000
	in excess of	in excess of	in excess of	in excess of
	1,000,000	1,000,000	1,000,000	1,000,000
Total reinsurance coverage per occurrence	9,250,000	9,000,000	9,100,000	9,200,000
Losses per occurrence subject to reinsurance coverage	10,000,000	10,000,000	10,000,000	10,000,000
Expiration date	June 30, 2020	June 30, 2020	June 30, 2019	June 30, 2018

Catastrophe Reinsurance:				
Initial loss subject to personal lines quota share treaty	7,500,000	None	\$ 5,000,000	\$ 5,000,000
Risk retained per catastrophe occurrence (2)	5,625,000	\$ 7,500,000	\$ 4,500,000	\$ 4,000,000
Catastrophe loss coverage in excess of quota share coverage (3)	602,500,000	\$ 602,500,000	\$ 445,000,000	\$ 315,000,000
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.

(2) Plus losses in excess of catastrophe coverage.

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

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

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

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

Line of Business	Treaty Year		
	July 1, 2019	July 1, 2018	July 1, 2017
	to June 30, 2020	to June 30, 2019	to June 30, 2018
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 dollars of coverage	100%	100%	100%
Risk retained	\$ 100,000	\$ 100,000	\$ 100,000
Total reinsurance coverage per occurrence	\$ 4,900,000	\$ 4,900,000	\$ 4,900,000
Losses per occurrence subject to quota share reinsurance coverage	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000
Expiration date	June 30, 2020	June 30, 2019	June 30, 2018
Commercial Lines:			
General liability commercial policies			
Quota share treaty	None	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
	\$ 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:			
Percent ceded - first \$1,000,000 of coverage	None	90%	90%
Percent ceded - excess of \$1,000,000 of coverage		100%	100%
Risk retained		\$ 100,000	\$ 100,000
Total reinsurance coverage per occurrence		\$ 4,900,000	\$ 4,900,000
Losses per occurrence subject to quota share reinsurance coverage		\$ 5,000,000	\$ 5,000,000
Expiration date		June 30, 2019	June 30, 2018

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.

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, or liquidity that are material to investors.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

This item is not applicable to smaller reporting companies.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements required by this Item 8 are included in this Annual Report following Item 16 hereof. As a smaller reporting company, we are not required to provide supplementary financial information.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure 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 Securities Exchange Act of 1934, as amended (the "Exchange Act") that is designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2019, our disclosure controls and procedures were not effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

Except for the steps taken to remediate the material weakness identified below, 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 the fourth fiscal quarter to which this report relates that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was not effective as of December 31, 2019.

A “material weakness” is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements would not be prevented or detected on a timely basis.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019 using criteria set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management concluded there is a material weakness in internal control over financial reporting as December 31, 2019 related to the operation of controls related to the establishment and ongoing monitoring of case reserves for losses and loss adjustment expenses.

Remediation

Management has been implementing and continues to implement measures designed to ensure that the control deficiency contributing to the material weakness is remediated, such that the controls are designed, implemented, and operating effectively. The remediation actions include:

- Engaged external resources to perform a comprehensive review of our claims operations surrounding the establishment and monitoring of liability case reserves;
- Hired a new Chief Claims Officer whose role includes a review of the entire population of case reserves to the policy level to ensure proper valuation, existence, and completeness;
- Increased the number, experience level and skill of the personnel involved in our claims function through hiring and improved training;
- Performed a thorough review of existing policies and procedures in place to facilitate the development and documentation of controls over financial reporting regarding liability case reserves. This review led to the addition of multiple controls including a quality assurance process as well as enhanced documentation of our existing controls in place;
- Enhanced testing procedures performed by our outsourced internal audit to ensure adequate design and operating effectiveness of new and existing internal controls.

We believe that these actions will remediate the material weakness. The weakness will not be considered remediated, however, until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect that the remediation of this material weakness will be completed prior to the end of fiscal 2020.

Our independent registered public accounting firm, Marcum LLP, has audited the consolidated financial statements and has issued an adverse attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2019, as stated in their report which is included in the Financial Statements of this Annual Report on Form 10-K.

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 Chief 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.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Shareholders and Board of Directors of
Kingstone Companies, Inc.

Adverse Opinion on Internal Control over Financial Reporting

We have audited Kingstone Companies, Inc. and Subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2019 based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, because of the effect of the material weakness described in the following paragraph on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2019 based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A material weakness is a control deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness in the operation of controls related to the establishment and ongoing monitoring of case reserves for losses and loss adjustment expenses has been identified and included in "Management's Annual Report on Internal Control over Financial Reporting".

This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the consolidated financial statements for the year ended December 31, 2019, and this report does not affect our report dated March 16, 2020 on those consolidated financial statements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the "PCAOB"), the consolidated balance sheets as of December 31, 2019 and 2018 and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2019, and our report dated March 16, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Annual Report on Internal Control over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the 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 degree of compliance with the policies or procedures may deteriorate.

Marcum LLP
Hartford, CT
March 16, 2020

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Executive Officers and Directors

The following table sets forth the positions and offices presently held by each of our current directors and executive officers and their ages:

Name	Age	Positions and Offices Held
Barry B. Goldstein	66	Chief Executive Officer, President, Executive Chairman of the Board and Director
Meryl S. Golden	60	Chief Operating Officer and Director
Victor J. Brodsky	62	Chief Financial Officer and Treasurer
Benjamin Walden	52	Executive Vice President and Chief Actuary, Kingstone Insurance Company
Floyd R. Tupper	65	Secretary and Director
Timothy P. McFadden	57	Assistant Secretary and Director
Jay M. Haft	84	Director
William L. Yankus	60	Director
Carla A. D'Andre	64	Director

Barry B. Goldstein

Mr. Goldstein has served as our Chief Executive Officer and President, as well as Chief Executive Officer and President of Kingstone Insurance Company, our wholly owned New York property and casualty insurer ("KICO"), since July 19, 2019. He previously served as our Chief Executive Officer, President and Chairman of the Board from March 2001 through December 31, 2018 and as Chief Executive Officer and President of KICO from January 2012 through December 31, 2018. Mr. Goldstein has served as our Executive Chairman of the Board since January 1, 2019 and as one of our directors since March 2001. He served as our Chief Financial Officer from March 2001 to November 2007 and as our Treasurer from May 2001 to August 2013. Since January 2006, Mr. Goldstein has served as Chairman of the Board of KICO. He has served as Chairman of its Executive Committee since October 2019 (having previously served in such capacity from 2006 to 2018). Mr. Goldstein has served as Chief Investment Officer of KICO since August 2008. He was Treasurer of KICO from March 2010 through September 2010. Effective July 1, 2009, we acquired a 100% equity interest in KICO. From 1997 to 2004, Mr. Goldstein served as President of AIA Acquisition Corp., which operated insurance agencies in Pennsylvania and which sold substantially all of its assets to us in 2003. Mr. Goldstein is a certified public accountant (inactive). Mr. Goldstein received his B.A. and M.B.A. from State University of New York at Buffalo. We believe that Mr. Goldstein's extensive experience in the insurance industry, including his executive-level service with KICO since 2006, give him the qualifications and skills to serve as one of our directors.

Meryl S. Golden

Ms. Golden has served as our Chief Operating Officer since September 25, 2019 and as one of our directors since March 11, 2020. She has also served as Chief Operating Officer, a director and a member of the Executive Committee of KICO since September 25, 2019. Ms. Golden has over 25 years of experience in the insurance industry. She served as Northeast General Manager of Progressive Insurance from 2000 to 2004 (having served as Connecticut General Manager at Progressive from 1996 to 2000). Ms. Golden was Senior Vice President/General Manager at Liberty Mutual from 2005 to 2007. From 2007 to 2009, she was a Management Committee advisor to Bridgewater Associates, a hedge fund. Ms. Golden served as General Manager of North America for Earnix, a banking and insurance software company, from 2010 to 2018 and was Sales Manager, Insurance Solutions for Arity, a mobility and data analytics company founded by Allstate, from 2018 until September 2019. Ms. Golden received her B.S. degree in Accounting from the Wharton School of the University of Pennsylvania and her M.B.A. in Marketing and Finance from the University of Chicago. We believe that Ms. Golden's executive level experience in the insurance industry gives her the qualifications and skills to serve as one of our directors.

Victor J. Brodsky

Mr. Brodsky has served as our Chief Financial Officer since August 2009 and as our Treasurer since August 2013. He served as our Chief Accounting Officer from August 2007 through July 2009, as our Principal Financial Officer for Securities and Exchange Commission (“SEC”) reporting purposes from November 2007 through July 2009 and as our Secretary from December 2008 to August 2013. In addition, Mr. Brodsky has served as a director of KICO since February 2008, as Chief Financial Officer of KICO since September 2010 and as Executive Vice President of KICO since February 2017. He also served as Senior Vice President of KICO from January 2012 to February 2017 and as Treasurer of KICO from September 2010 through December 2011. Mr. Brodsky served from May 2008 through March 15, 2010 as Vice President of Financial Reporting and Principal Financial Officer for SEC reporting purposes of Vertical Branding Inc. Mr. Brodsky served as Chief Financial Officer of Vertical Branding from March 1998 through May 2008 and as a director of Vertical Branding from May 2002 through November 2005. He served as its Secretary from November 2005 through May 2008 and from April 2009 to March 15, 2010. Prior to joining Vertical Branding, Mr. Brodsky spent 16 years at the CPA firm of Michael & Adest in New York. Mr. Brodsky earned a Bachelor of Business Administration degree from Hofstra University, with a major in accounting, and is a licensed CPA in New York.

Benjamin Walden

Mr. Walden has served as Executive Vice President of KICO since February 2017 and as Chief Actuary of KICO since December 2013. From January 2015 to February 2017, he served as Senior Vice President of KICO and from December 2013 to January 2015, he served as Vice President of KICO. From February 2010 to November 2013, Mr. Walden served as Chief Actuary for Interboro Insurance Company, a personal lines carrier. From July 2008 to February 2010, Mr. Walden was President of Assigned Risk Consulting, Inc., an independent actuarial consulting firm. From October 2001 to April 2009, he served as Vice President and Chief Actuary of AutoOne Insurance, an assigned risk automobile servicing carrier. Mr. Walden was also an actuarial consultant at Milliman, Inc., an independent provider of actuarial and consulting services, from January 1998 to October 2001. Mr. Walden has been a Fellow of the Casualty Actuarial Society since 1999 and holds a Bachelor of Science Degree in Mathematics from Villanova University. Mr. Walden tendered his resignation effective May 31, 2020.

Floyd R. Tupper

Mr. Tupper is a certified public accountant in New York City. For over 30 years, Mr. Tupper has counseled high-net worth individuals by creating tax planning strategies to achieve their goals as well as those of their families. He has also helped small businesses by developing business strategies to meet their current and future needs. He began his career in public accounting with Ernst & Young LLP prior to becoming self-employed. Mr. Tupper holds an M.B.A. in Taxation from the New York University Stern School of Business and a B.S. from New York University. Mr. Tupper served as a director of KICO from 2006 to 2018 and has served as Chairman of its Audit Committee since 2006. From 1990 until 2010, Mr. Tupper served as a Trustee of The Acorn School in New York City. He was also a member of the school’s Executive Committee and served as its Treasurer from 1990 to 2010. Mr. Tupper is a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants. He has served as one of our directors and Chairman of our Audit Committee since June 2014 and as our Secretary since June 2015. We believe that Mr. Tupper’s accounting experience, as well as his service on the Board of KICO (including his service as Chairman of its Audit Committee), give him the qualifications and skills to serve as one of our directors.

Jay M. Haft

Mr. Haft served for more than 15 years as a personal advisor to Victor Vekselberg, a Russian entrepreneur with considerable interests in oil, aluminum, utilities and other industries. Mr. Haft is a partner at Columbus Nova, the U.S.-based investment and operating arm of Mr. Vekselberg’s Renova Group of companies. Mr. Haft is also a strategic and financial consultant for growth stage companies. He is active in international corporate finance and mergers and acquisitions as well as in the representation of emerging growth companies. Mr. Haft has extensive experience in the Russian market, in which he has worked on growth strategies for companies looking to internationalize their business assets and enter international capital markets. He has been a founder, consultant and/or director of numerous public and private corporations, and served as Chairman of the Board of Dusa Pharmaceuticals, Inc. Mr. Haft serves on the Board of The Link of Times Foundation and The Mariinski Foundation and is an advisor to Montezemolo & Partners. He has been instrumental in strategic planning and fundraising for a variety of Internet and high-tech, leading edge medical technology and marketing companies over the years. Mr. Haft served as counsel to Reed Smith, an international law firm. Mr. Haft is a past member of the Florida Commission for Government Accountability to the People, a past national trustee and Treasurer of the Miami City Ballet, and a past Board member of the Concert Association of Florida. He is also a past trustee of Florida International University Foundation and previously served on the advisory board of the Wolfsonian Museum and Florida International University Law School. Mr. Haft served as our Vice Chairman of the Board from February 1999 until March 2001. From October 1989 to February 1999, he served as our Chairman of the Board and he has served as one of our directors since 1989 (serving as Chairman of our Nominating and Corporate Governance Committee from 2010 to 2018). Mr. Haft received B.A. and LL.B. degrees from Yale University. We believe that Mr. Haft’s corporate finance, business consultation, legal and executive-level experience, as well as his service on the Board of KICO, give him the qualifications and skills to serve as one of our directors.

William L. Yankus

Mr. Yankus brings to the Board over 30 years' experience in the insurance industry. Since September 2015, Mr. Yankus has provided insurance-related consulting services through Pheasant Hill Advisors, LLC. From 2011 to 2015, he was Managing Director – Investment Banking at Stern Agee where he focused on small and mid-sized insurers. Mr. Yankus served as Managing Director-Insurance Research at Fox-Pitt, Kelton from 1993 to 2009 and then as Head of Insurance Research at its successor, Macquerie, from 2009 to 2010. Mr. Yankus served as Vice President, Insurance Research at Conning & Company from 1985 to 1993. He completed the CFA program in 1989 and passed the CT uniform CPA exam in 1984. Mr. Yankus has served as one of our directors since March 2016, Chairman of our Compensation Committee since April 2017 and Chairman of our Investment Committee since February 2020. He received his B.A. degree in Economics and Accounting from The College of the Holy Cross. We believe that Mr. Yankus' executive level experience in the insurance industry gives him the qualifications and skills to serve as one of our directors.

Carla A. D'Andre

Ms. D'Andre has more than 40 years of experience in the insurance industry. Since 2009, Ms. D'Andre has been Chairman, CEO and President of D'Andre Insurance Group, Inc., which she co-founded. D'Andre Insurance Group, Inc. is the parent of two independent insurance agencies. Prior to co-founding D'Andre Insurance Group, Ms. D'Andre held executive-level roles at several companies in the insurance industry, including Executive Vice President, Head – Global Corporate Practice and Member – Partner's Council at Willis Group Holdings plc, a multinational risk advisor, insurance brokerage and reinsurance brokerage company; Managing Director and Strategic Account Manager at AON Risk Services, a global provider of risk management solutions; Chief Operating Officer at XL Capital's insurance and technology start-up firm, Inquis Logic Inc.; Member of Senior Management and Managing Director of Swiss Re New Markets and Director of Alternative Markets at Swiss ReAmerica, affiliates of Swiss Reinsurance Company Ltd, a global reinsurance company; Senior Vice President of Sedgwick North America, an insurance brokerage firm; and Vice President of Johnson & Higgins, an insurance brokerage firm. Ms. D'Andre serves in senior capacities in several insurance industry groups. In January 2019 she was elected by her peers to a three-year term as a member of The Institutes' CPCU Society Leadership Council. She also serves as a member of the Executive Advisory Council of St. John's University School of Risk Management, Insurance and Actuarial Science. She has served as one of our directors since May 2017 and currently serves as Co-Chair of our Finance Committee. Ms. D'Andre has an M.B.A. from Pace University's Lubin School of Business and a B.B.A. from St. John's University's School of Risk Management, Insurance and Actuarial Science. We believe that Ms. D'Andre's extensive experience in multiple capacities in the insurance industry gives her the qualifications and skills to serve as one of our directors.

Timothy P. McFadden

Mr. McFadden has more than 28 years of experience in the insurance industry. Since 2012, Mr. McFadden has served as CEO and President of State Farm Indemnity Auto Insurance Company and Senior Vice President of State Farm Insurance, Eastern Market Area. Since 2015, he has also served as CEO and President of State Farm Florida Fire Company. Mr. McFadden served as Senior Vice President of State Farm Insurance Companies, Southern Zone from 2008 to 2011 and Senior Vice President of State Farm Insurance Companies, Southern & Mid Atlantic Zones from 2011 to 2013. He is a member of the Board of State Farm Indemnity Auto Insurance Company, Local Initiatives Support Corporation, American College Ethics Board, State Farm Florida Fire Company, Top Layer Reinsurance and Florida Council of 100. Mr. McFadden received his B.S. degree from the United States Military Academy at West Point and his J.D. from Stetson College of Law. He also completed the General Management Program at Harvard Business School and received his Chartered Life Underwriter Designation from The American College of Financial Services. Mr. McFadden has served as one of our directors and Chair of our Nominating and Corporate Governance Committee since August 2018. We believe that Mr. McFadden's executive level experience in the insurance industry gives him the qualifications and skills to serve as one of our directors.

Family Relationships

There are no family relationships among any of our executive officers and directors; however, see Item 13 ("Certain Relationships and Related Transactions, and Director Independence - Other") of this Annual Report.

Term of Office

Each director will hold office until the next annual meeting of stockholders and until his or her successor is elected and qualified or until his or her earlier resignation or removal. Each executive officer will hold office until the initial meeting of the Board of Directors following the next annual meeting of stockholders and until his or her successor is elected and qualified or until his or her earlier resignation or removal.

Audit Committee

The Audit Committee of the Board of Directors is responsible for overseeing our accounting and financial reporting processes, the audits of our financial statements and the appointment of our Independent Registered Public Accounting Firm. The members of the Audit Committee are Messrs. Tupper, Yankus and McFadden.

Audit Committee Financial Expert

Our Board of Directors has determined that Mr. Tupper qualifies as an “audit committee financial expert,” as defined in applicable Nasdaq listing standards and federal securities rules and regulations, and that Mr. Tupper is independent under applicable and federal securities rules and regulations on independence of Audit Committee members.

Delinquent Section 16(a) Reports

Section 16 of the Exchange Act requires that reports of beneficial ownership of common shares and changes in such ownership be filed with the SEC by Section 16 “reporting persons,” including directors, certain officers, holders of more than 10% of the outstanding common shares and certain trusts of which reporting persons are trustees. We are required to disclose in this Annual Report each reporting person whom we know to have failed to file any required reports under Section 16 on a timely basis during the fiscal year ended December 31, 2019. To our knowledge, based solely on a review of copies of Forms 3, 4 and 5 filed with the SEC and written representations that no other reports were required, during the fiscal year ended December 31, 2019, our officers, directors and 10% stockholders complied with all Section 16(a) filing requirements applicable to them, except that Mr. Brodsky filed two Forms 4 one day late, each reporting one transaction.

Code of Ethics; Officer and Director Trading Restrictions Policy

Our Board of Directors has adopted a Code of Ethics for our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. Our Board of Directors has also adopted an Officer and Director Trading Restrictions Policy for our officers and directors as well as the officers and directors of KICO. Copies of the Code of Ethics and Officer and Director Trading Restrictions Policy are posted on our website, www.kingstonecompanies.com. We intend to satisfy the disclosure requirement under Item 5.05(c) of Form 8-K regarding an amendment to, or a waiver from, our Code of Ethics or Officer and Director Trading Restrictions Policy by posting such information on our website, www.kingstonecompanies.com.

ITEM 11. EXECUTIVE COMPENSATION.

Summary Compensation Table

The following table sets forth certain information concerning the compensation for the fiscal years ended December 31, 2019 and 2018 for certain executive officers, including our Chief Executive Officer:

Name and Principal Position	Year	Salary	Bonus	Stock Awards(3)	Option Awards	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
Barry B. Goldstein (1) Chief Executive Officer; Executive Chairman of the Board	2019	\$ 636,500	\$ -	\$ -	\$ -	\$ -	\$ 37,520(5)	\$ 674,020
	2018	\$ 630,000	\$ -	\$ -	\$ -	\$ 21,887(4)	\$ 43,784(6)	\$ 695,671
Dale A. Thatcher (2) Chief Executive Officer; Chief Operating Officer	2019	\$ 625,000	\$ -	\$ 750,000	\$ -	\$ 5,000(4)	\$ 38,200(7)	\$ 1,418,200
	2018	\$ 398,630	\$ -	\$ 750,000	\$ -	\$ 59,795(4)	\$ 79,157(8)	\$ 1,287,582
Victor J. Brodsky Chief Financial Officer	2019	\$ 369,666	\$ -	\$ 150,000	\$ -	\$ 34,508(4)	\$ 22,042(9)	\$ 576,217
	2018	\$ 350,000	\$ -	\$ 140,009	\$ -	\$ 17,573(4)	\$ 27,759(10)	\$ 535,341
Benjamin Walden Executive Vice President and Chief Actuary, Kingstone Insurance Company	2019	\$ 339,025	\$ -	\$ 135,000	\$ -	\$ 31,601(4)	\$ 11,200(11)	\$ 516,825
	2018	\$ 315,000	\$ -	\$ 110,856	\$ -	\$ 15,760(4)	\$ 16,000(12)	\$ 457,616

- (1) Mr. Goldstein has served as our Chief Executive Officer since July 19, 2019 and Executive Chairman of the Board since January 1, 2019. He previously served as Chief Executive Officer from March 2001 through December 31, 2018.
- (2) Mr. Thatcher served as our Chief Executive Officer from January 1, 2019 to July 19, 2019. He previously served as our Chief Operating Officer from March 15, 2018 through December 31, 2018.
- (3) Amounts reflect the aggregate grant date fair value of grants made in each respective fiscal year computed in accordance with stock-based accounting rules (FASB ASC Topic 718-Stock Compensation), excluding the effect of estimated forfeitures. Assumptions used in the calculations of these amounts are included in Note 12 to our Consolidated Financial Statements included in this Annual Report.
- (4) Represents amounts earned pursuant to the KICO employee bonus plan for 2019 and profit sharing plan for 2018.
- (5) Represents employer matching contributions under our deferred compensation plan of \$17,025, employer matching contributions under our defined contribution plan of \$8,495 and a car allowance of \$12,000.
- (6) Represents employer matching contributions under our deferred compensation plan of \$15,018, employer matching contributions under our defined contribution plan of \$10,266, a car allowance of \$12,000 and KICO director fees.
- (7) Represents employer matching contributions under our deferred compensation plan of \$2,090, employer matching contributions under our defined contribution plan of \$9,110, severance payment of \$20,000 and a car allowance of \$7,000.
- (8) Represents compensation paid for services as a non-employee director during 2018 comprised of a cash retainer of \$11,458 and restricted shares of our common stock with a grant date fair value of \$41,300, matching contributions under our defined contribution plan of \$10,615, a car allowance of \$9,567 and KICO director fees.
- (9) Represents employer matching contributions under our deferred compensation plan of \$4,090, employer matching contributions under our defined contribution plan of \$10,752 and a car allowance of \$7,200.
- (10) Represents employer matching contributions under our defined contribution plan of \$10,847, a car allowance of \$7,200 and KICO director fees.
- (11) Represents employer matching contributions under our defined contribution plan of \$11,200.
- (12) Represents employer matching contributions under our defined contribution plan of \$11,000 and \$5,000 of KICO director fees.

Employment Contracts

Barry B. Goldstein

- Agreement in effect for the year ended December 31, 2018

During the year ended December 31, 2018, Mr. Goldstein was employed as our President, Chairman of the Board and Chief Executive Officer pursuant to an employment agreement, dated January 20, 2017 (the "2017 Goldstein Employment Agreement"), that was scheduled to expire on December 31, 2019. Pursuant to the 2017 Goldstein Employment Agreement, Mr. Goldstein was entitled to receive an annual base salary of \$630,000 (an increase from \$575,000 per annum in effect through December 31, 2016) and an annual bonus equal to 6% of our consolidated income from operations before taxes, exclusive of our consolidated net investment income (loss) and net realized gains (losses) on investments (consistent with the bonus payable to Mr. Goldstein through December 31, 2016). In addition, pursuant to the 2017 Goldstein Employment Agreement, Mr. Goldstein was entitled to a long-term compensation ("LTC") payment of between \$945,000 and \$2,835,000 in the event our adjusted book value per share (as defined in the 2017 Goldstein Employment Agreement) increased by at least an average of 8% per annum as of December 31, 2019 as compared to December 31, 2016 (with the maximum LTC payment being due if the average per annum increase was at least 14%). Accrued LTC compensation credit of \$247,311 for the year ended December 31, 2018 is included in other operating expenses in the Consolidated Statements of Income and Comprehensive (Loss) Income included in this Annual Report.

- Agreement in effect for the year ended December 31, 2019

On October 16, 2018, we entered into an amended and restated employment agreement with Mr. Goldstein which took effect as of January 1, 2019 and which was scheduled to expire on December 31, 2021 (the "Amended and Restated Goldstein Employment Agreement"). Pursuant to the Amended and Restated Goldstein Employment Agreement, Mr. Goldstein stepped down as our Chief Executive Officer on January 1, 2019 and was named Executive Chairman of the Board.

Pursuant to the Amended and Restated Goldstein Employment Agreement, Mr. Goldstein was entitled to receive an annual base salary of \$636,500 for the calendar year 2019. In addition, Mr. Goldstein was eligible to receive an annual performance bonus equal to 3% of our consolidated income from operations before taxes, exclusive of our consolidated net investment income (loss) and net realized gains (losses) on investments. In addition, pursuant to the Amended and Restated Goldstein Employment Agreement, Mr. Goldstein was entitled to an LTC payment (which was a continuation of the previous terms under the 2017 Goldstein Employment Agreement) of between \$945,000 and \$2,835,000 based on a specified minimum increase in our adjusted book value per share (as defined in the Amended and Restated Goldstein Employment Agreement) as of December 31, 2019 as compared to December 31, 2016 (with the maximum LTC payment being due if the average per annum increase was at least 14%). Pursuant to the Amended and Restated Goldstein Employment Agreement, Mr. Goldstein was entitled to receive a grant, under the terms of our 2014 Equity Participation Plan (the “2014 Plan”), during the first 30 days of January 2020, with respect to a number of shares of restricted stock determined by dividing \$436,500 by the fair market value of our common stock on the date of grant. The January 2020 grant was to vest with respect to 50% of the award on each of December 31, 2020 and December 31, 2021 based on the continued provision of services through the applicable vesting date. Also, pursuant to the Amended and Restated Goldstein Employment Agreement, Mr. Goldstein was entitled to receive a grant, under the 2014 Plan, during the first 30 days of 2021, with respect to a number of shares of restricted stock determined by dividing \$236,500 by the fair market value of our common stock on the date of grant. The January 2021 grant was to vest on December 31, 2021 based on the continued provision of services through such date. The above stock grant provisions were superseded by the provisions of the Second Amended and Restated Goldstein Employment Agreement as discussed below.

- Agreement in effect as of January 1, 2020

On October 14, 2019, we entered into a second amended and restated employment agreement with Mr. Goldstein which took effect as of January 1, 2020 and expires on December 31, 2022 (the “Second Amended and Restated Goldstein Employment Agreement”).

Pursuant to the Second Amended and Restated Goldstein Employment Agreement, Mr. Goldstein is entitled to receive an annual base salary of \$500,000 and an annual bonus equal to 6% of our consolidated income from operations before taxes, exclusive of our 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 Second Amended and Restated Goldstein Employment Agreement, Mr. Goldstein is entitled to receive an LTC payment of between \$945,000 and \$2,835,000 based on a specified minimum increase in our adjusted book value per share (as defined in the Second Amended and Restated Goldstein 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%).

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

See “Termination of Employment and Change-in-Control Arrangements—Barry B. Goldstein” below for a discussion of the provisions of the Second Amended and Restated Goldstein Employment Agreement with regard to payments due in the event of the termination of Mr. Goldstein’s employment.

Dale A. Thatcher

- Agreement in effect for the year ended December 31, 2018

On March 14, 2018, we and Dale A. Thatcher, then one of our directors, entered into an employment agreement (the “2018 Thatcher Employment Agreement”) pursuant to which Mr. Thatcher became our Chief Operating Officer. The 2018 Thatcher Employment Agreement became effective as of March 15, 2018 and expired on December 31, 2018. Pursuant to the 2018 Thatcher Employment Agreement, Mr. Thatcher was entitled to receive a base salary of \$500,000 per annum and a minimum bonus equal to 15% of his base salary. Concurrently with the execution of the 2018 Thatcher Employment Agreement, we granted to Mr. Thatcher 35,715 shares of restricted common stock under the 2014 Plan. Such shares vest to the extent of one-third of the award on each of the first, second and third anniversaries of the grant date.

- Agreement in effect from January 1, 2019 through July 19, 2019

On October 16, 2018, we and Mr. Thatcher entered into an employment agreement effective as of January 1, 2019 (the “2019 Thatcher Employment Agreement”). Pursuant to the 2019 Thatcher Employment Agreement, Mr. Thatcher succeeded Mr. Goldstein as our Chief Executive Officer and was entitled to receive an annual base salary of \$500,000 for 2019 and \$630,000 for each of 2020 and 2021. In addition, Mr. Thatcher was eligible to receive an annual performance bonus equal to 3% of our consolidated income from operations before taxes, exclusive of our consolidated net investment income (loss) and net realized gains (losses) on investments. Pursuant to the 2019 Thatcher Employment Agreement, Mr. Thatcher was entitled to receive a grant, under the terms of the 2014 Plan, of a number of shares of restricted stock in each of 2019, 2020 and 2021 determined by dividing \$750,000, \$1,250,000 and \$1,500,000, respectively, by the fair market value of our common stock on the date of grant. See Item 13 (“Certain Relationships and Related Transactions, and Director Independence—Dale A. Thatcher”) of this Annual Report for a discussion of an agreement entered into with Mr. Thatcher in July 2019 with regard to the termination of his employment.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth certain information concerning unexercised options held by the above named executive officers as of December 31, 2019.

Name	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price	Option Expiration Date	Number of Shares of Stock That Have Not Vested	Market Value of Shares of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares That Have Not Vested
Dale A. Thatcher	-	-		-	42,230(1)	\$ 327,283	-	\$ -
					23,810(2)	\$ 184,528	-	\$ -
Victor J. Brodsky	-	-		-	555(3)	\$ 4,304	-	\$ -
					4,655(4)	\$ 36,076	-	\$ -
					10,933(5)	\$ 84,731	-	\$ -
Benjamin Walden	7,000	-	\$ 7.85	3/11/21	333(3)	\$ 2,583	-	\$ -
					3,686(6)	\$ 28,567	-	\$ -
					9,840(7)	\$ 76,260	-	\$ -

(1) Such shares vest to the extent of 14,077 shares on each of January 2, 2020 and 2021, and 14,076 shares on January 2, 2022.

(2) Such shares vest to the extent of 11,905 shares on each of March 14, 2020 and 2021.

(3) Such shares vest in two as nearly equal as possible monthly installments through February 23, 2020.

(4) Such shares vest to the extent of 2,328 shares on February 22, 2020 and 2,327 shares on February 22, 2021.

(5) Such shares vest to the extent of 3,645 shares on April 10, 2020 and 3,644 shares on each of April 10, 2021 and 2022.

(6) Such shares vest to the extent of 1,843 shares on each of February 22, 2020 and 2021.

(7) Such shares vest to the extent of 3,280 shares on each of April 10, 2020, 2021 and 2022.

Termination of Employment and Change-in-Control Arrangements

Barry B. Goldstein

Pursuant to the Second Amended and Restated Goldstein Employment Agreement, in the event that Mr. Goldstein's employment is terminated by us without cause or he resigns for good reason (each as defined in the Second Amended and Restated Goldstein Employment Agreement), Mr. Goldstein would be entitled to receive his base salary, bonus and 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 to receive, under certain circumstances, a payment equal to 3.82 times his then annual salary, the target LTC payment of \$1,890,000 and his accrued bonus in the event of the termination of his employment within eighteen months following a change of control of our company.

Dale A. Thatcher

See Item 13 ("Certain Relationships and Related Transactions, and Director Independence—Dale A. Thatcher") for a discussion of an agreement entered into with Mr. Thatcher in July 2019 with regard to the termination of his employment.

Compensation of Directors

The following table sets forth certain information concerning the compensation of our directors for the fiscal year ended December 31, 2019:

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash	Stock Awards(1)	Option Awards	Total
Jay M. Haft	\$ 75,000	\$ 40,000	\$ -	\$ 115,000
Floyd R. Tupper	\$ 85,000	\$ 40,000	\$ -	\$ 125,000
William L. Yankus	\$ 80,000	\$ 40,000	\$ -	\$ 120,000
Carla A. D'Andre	\$ 75,000	\$ 40,000	\$ -	\$ 115,000
Timothy P. McFadden	\$ 75,000	\$ 40,000	\$ -	\$ 115,000

(1) Amounts reflect the aggregate grant date fair value of grants made in the fiscal year computed in accordance with stock-based accounting rules (FASB ASC Topic 718-Stock Compensation), excluding the effect of estimated forfeitures. Assumptions used in the calculations of these amounts are included in Note 12 to our Consolidated Financial Statements included in this Annual Report. The aggregate number of unvested restricted stock awards outstanding as of fiscal year end for each non-employee director is as follows:

Name	Unvested Restricted Stock Awards (#)
Jay M. Haft	1,999
Floyd R. Tupper	1,999
William L. Yankus	1,999
Carla A. D'Andre	1,749
Timothy P. McFadden	530

Effective January 1, 2019, our non-employee directors are entitled to receive annual compensation for their services as directors as follows:

- \$60,000;
- an additional \$25,000 for service as audit committee chair, an additional \$20,000 for service as compensation committee chair, an additional \$10,000 for service as investment committee chair, and an additional \$15,000 for service as chair of other committees; and
- \$40,000 of our common stock determined by the closing stock price on the first business day of the year, which vest on the first anniversary of the grant date.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Security Ownership

The following table sets forth certain information as of March 9, 2020 regarding the beneficial ownership of our shares of common stock by (i) each person who we believe to be the beneficial owner of more than 5% of our outstanding shares of common stock, (ii) each present director, (iii) each named executive officer and (iv) all of our present executive officers and directors as a group.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Approximate Percent of Class
Barry B. Goldstein 15 Joys Lane Kingston, New York	707,158(1)	6.5 %
Jay M. Haft 69 Beaver Dam Road Salisbury, Connecticut	98,010	*
Floyd R. Tupper 220 East 57th Street New York, New York	67,388(2)	*
Dale A. Thatcher 212 Third Street Milford, Pennsylvania	59,882(3)	*
Victor J. Brodsky 15 Joys Lane Kingston, New York	36,457(4)	*
Benjamin Walden 15 Joys Lane Kingston, New York	32,966(5)	*
Carla A. D'Andre 3561 Avocado Avenue Miami, Florida	15,821(6)	*
William L. Yankus 10 Pheasant Hill Road Farmington, Connecticut	13,086	*
Meryl S. Golden 15 Joys Lane Kingston, New York	12,500(7)	*
Timothy P. McFadden 310 8th Avenue N. Saint Petersburg, Florida	7,518	*
The TCW Group, Inc. on behalf of the TCW Business Unit 865 South Figueroa Street Los Angeles, California	673,170(8)	6.2%
RenaissanceRe Ventures Ltd. Renaissance Other Investments Holding II Ltd. RenaissanceRe Holdings Ltd. Renaissance House 12 Crow Lane Pembroke HM19 Bermuda	595,238(9)	5.5%
All executive officers and directors as a group (9 persons)	990,904(1)(2)(4)(5)(6)(7)	9.1%

* Less than 1%.

- (1) The information regarding Mr. Goldstein is based solely on publicly available information filed with the SEC. Includes (i) 73,168 shares of common stock owned by Mr. Goldstein's wife and (ii) 2,000 shares held in a retirement trust for the benefit of Mr. Goldstein. Mr. Goldstein has sole voting and dispositive power over 638,890 shares of common stock and shared voting and dispositive power over 73,168 shares of common stock. The inclusion of the shares owned by Mr. Goldstein's wife and the retirement trust shall not be construed as an admission that Mr. Goldstein is, for purposes of Section 13(d) or 13(g) of the Exchange Act, the beneficial owner of such shares.
- (2) Includes (i) 32,065 shares owned by Mr. Tupper's wife (ii) 6,675 shares held in a retirement trust for the benefit of Mr. Tupper and (iii) 810 shares held in a retirement trust for the benefit of Mr. Tupper's wife. Mr. Tupper has sole voting and dispositive power over 34,513 shares of common stock and shared voting and dispositive power over 32,875 shares of common stock. The inclusion of the shares owned by Mr. Tupper's wife and the retirement trusts for the benefit of Mr. Tupper and his wife shall not be construed as an admission that Mr. Tupper is, for purposes of Section 13(d) or 13(g) of the Exchange Act, the beneficial owner of such shares.
- (3) Includes 11,905 shares issuable upon the vesting of restricted stock within 60 days.
- (4) Includes 3,644 shares issuable upon the vesting of restricted stock within 60 days.
- (5) Includes 7,000 shares issuable upon the exercise of options that are exercisable currently and 3,280 shares issuable upon the vesting of restricted stock within 60 days.
- (6) Includes 10,000 shares held in a retirement trust for the benefit of Ms. D'Andre's husband. Ms. D'Andre has sole voting and dispositive power over 5,821 shares of common stock and shared voting and dispositive power over 10,000 shares of common stock. The inclusion of the shares owned by the retirement trust for the benefit of Ms. D'Andre's husband shall not be construed as an admission that Ms. D'Andre is, for purposes of Section 13(d) or 13(g) of the Exchange Act, the beneficial owner of such shares.
- (7) Represents shares issuable upon the exercise of options that are exercisable currently.
- (8) The information regarding The TCW Group, Inc. on behalf of the TCW Business Unit is based solely on a Schedule 13G filed by such reporting person with the SEC on February 7, 2020 (the "TCW 13G"). According to the TCW 13G, such reporting person has shared voting and dispositive power over the 673,170 shares of common stock.
- (9) The information regarding RenaissanceRe Ventures Ltd. ("RenaissanceRe Ventures"), Renaissance Other Investments Holding II Ltd. ("ROIHL II") and RenaissanceRe Holdings Ltd. ("RenaissanceRe Holdings") is based solely on a Schedule 13G/A filed by such reporting persons with the SEC on February 14, 2019 (the "Renaissance 13G/A"). According to the Renaissance 13G/A, RenaissanceRe Ventures, ROIHL II and RenaissanceRe Holdings each has shared voting and dispositive power over the 595,238 shares of common stock.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 31, 2019 with respect to compensation plans (including individual compensation arrangements) under which our common shares are authorized for issuance, aggregated as follows:

- All compensation plans previously approved by security holders; and
- All compensation plans not previously approved by security holders.

EQUITY COMPENSATION PLAN INFORMATION

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	82,000	\$ 8.61	327,900
Equity compensation plans not approved by security holders	-	-	-
Total	82,000	\$ 8.61	327,900

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Director Independence

Board of Directors

Our Board of Directors is currently comprised of Barry B. Goldstein, Jay M. Haft, Floyd R. Tupper, William L. Yankus, Carla A. D'Andre, Timothy P. McFadden and Meryl S. Golden. Our board of directors has determined that each of Messrs. Haft, Tupper, Yankus and McFadden and Ms. D'Andre are independent under applicable Nasdaq listing standards and federal securities rules and regulations.

Audit Committee

The members of our Board's Audit Committee currently are Messrs. Tupper, Yankus and McFadden, each of whom is independent under applicable Nasdaq listing standards and federal securities rules and regulations on independence of Audit Committee members.

Nominating and Corporate Governance Committee

The members of our Board's Nominating and Corporate Governance Committee currently are Messrs. McFadden and Tupper and Ms. D'Andre, each of whom is independent under applicable Nasdaq listing standards and federal securities rules and regulations on independence.

Compensation Committee

The members of our Board's Compensation Committee currently are Messrs. Yankus, Haft and Tupper and Ms. D'Andre, each of whom is independent under applicable Nasdaq listing standards and federal securities rules and regulations on independence.

Dale A. Thatcher

In connection with the separation from employment of Dale Thatcher as our Chief Executive Officer and President in July 2019 (the "Separation Date"), each of we and KICO entered into an Agreement and General Release (the "Separation Agreement") with Mr. Thatcher. Pursuant to the Separation Agreement, we and KICO agreed to collectively provide the following payments and benefits to Mr. Thatcher in full satisfaction of all payments and benefits and other amounts due to him under the terms of the 2019 Thatcher Employment Agreement (and related KICO employment agreement) 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 of any bonus payments payable under the 2019 Thatcher Employment Agreement (and related KICO employment agreement), (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. In addition, we 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.

Other

The daughter of Barry Goldstein, Amanda Goldstein, is employed as our Investor Relations Director and serves as Vice President of Cosi Agency, Inc., one of our subsidiaries. For the fiscal year ended December 31, 2019, she earned \$155,368 in compensation.

Related Party Transactions

Due to the infrequency of related party transactions, we have not formally adopted procedures for the review of, or standards for approval of, such transactions; however, our Board of Directors (or a designated committee thereof) will review related party transactions on a case-by-case basis.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The following is a summary of the fees billed to us by Marcum LLP, our independent auditors, for professional services rendered for the fiscal years ended December 31, 2019 and 2018.

Fee Category	Fiscal 2019 Fees	Fiscal 2018 Fees
Audit Fees(1)	\$ 306,940	\$ 309,684
Tax Fees(2)	\$ -	\$ -
Audit-Related Fees(3)	\$ -	\$ -
All Other Fees(4)	\$ -	\$ -
	\$ 306,940	\$ 309,684

- (1) Audit Fees consist of fees billed for services rendered for the audit of our consolidated financial statements and review of our condensed consolidated financial statements included in our Quarterly Reports on Form 10-Q, and services provided in connection with other statutory or regulatory filings.
- (2) Marcum did not provide any tax services during the fiscal year.
- (3) Marcum did not provide any "Audit-Related" services during the fiscal year.
- (4) Marcum did not provide any other services during the fiscal year.

The Audit Committee is responsible for the appointment, compensation and oversight of the work of the independent auditors and approves in advance any services to be performed by the independent auditors, whether audit-related or not. The Audit Committee reviews each proposed engagement to determine whether the provision of services is compatible with maintaining the independence of the independent auditors. Substantially all of the fees shown above were pre-approved by the Audit Committee.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

Exhibit Number	Description of Exhibit
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).
4(a)	Indenture, dated as of December 19, 2017, between Kingstone Companies, Inc. and Wilmington Trust, National Association (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on December 20, 2017).
4(b)	First Supplemental Indenture, dated as of December 19, 2017, between Kingstone Companies, Inc. and Wilmington Trust, National Association (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on December 20, 2017).
4(c)	Form of Global Note representing \$30,000,000 aggregate principal amount of 5.50% Senior Unsecured Notes due 2022 (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on December 20, 2017).
10(a)	2014 Equity Participation Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 14, 2014).
10(b)	Second Amended and Restated Employment Agreement, dated October 14, 2019, by and between Kingstone Companies, Inc. and Barry B. Goldstein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 18, 2019).
10(c)	Stock Grant Agreement, dated as of January 3, 2020, between Kingstone Companies, Inc. and Barry B. Goldstein (157,431 shares).
10(d)	Stock Grant Agreement, dated as of January 3, 2020, between Kingstone Companies, Inc. and Barry B. Goldstein (17,191 shares).
10(e)	Stock Grant Agreement, dated as of March 14, 2018, between Kingstone Companies, Inc. and Dale A. Thatcher (incorporated by reference to Exhibit 10(k) to the Company's Annual Report on Form 10-K for the year ended December 31, 2017 filed on March 15, 2018).
10(f)	Stock Grant Agreement, dated as of January 1, 2019, between Kingstone Companies, Inc. and Dale A. Thatcher.
10(g)	Agreement and General Release, dated as of July 19, 2019, by and among Kingstone Companies, Inc., Kingstone Insurance Company and Dale A. Thatcher (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 19, 2019).
10(h)	Employment Agreement, dated as of August 27, 2019, by and between Kingstone Companies, Inc. and Meryl S. Golden (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on September 17, 2019).
10(i)	Deferred Compensation Plan, dated as of June 18, 2018 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 20, 2018).
21	Subsidiaries (incorporated by reference to Exhibit 21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 filed on March 16, 2017).
23	Consent of Marcum LLP.
31(a)	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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 Chief 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.

ITEM 16. **FORM 10-K SUMMARY.**

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KINGSTONE COMPANIES, INC.

Date: March 16, 2020

By: /s/ Barry B. Goldstein

Barry B. Goldstein
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
<u>/s/ Barry B. Goldstein</u> Barry B. Goldstein	Chief Executive Officer, President and Executive Chairman of the Board	March 16, 2020
<u>/s/ Victor J. Brodsky</u> Victor J. Brodsky	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 16, 2020
<u>/s/ Meryl S. Golden</u> Meryl S. Golden	Chief Operating Officer and Director	March 16, 2020
<u>/s/ Floyd R. Tupper</u> Floyd R. Tupper	Director	March 16, 2020
<u>/s/ William L. Yankus</u> William L. Yankus	Director	March 16, 2020
<u>/s/ Carla A. D'Andre</u> Carla A. D'Andre	Director	March 16, 2020
<u>/s/ Jay M. Haft</u> Jay M. Haft	Director	March 16, 2020
<u>/s/ Timothy P. McFadden</u> Timothy P. McFadden	Director	March 16, 2020

Index to Consolidated Financial Statements

	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2019 and 2018	F-3
Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2019 and 2018	F-4
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2019 and 2018	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018	F-6
Notes to Consolidated Financial Statements	F-7

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Kingstone Companies, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Kingstone Companies, Inc. and subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive income (loss), stockholders' equity and cash flows for each of the two years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the "PCAOB"), the Company's internal control over financial reporting as of December 31, 2019 based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 16, 2020 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting because of the existence of a material weakness.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Marcum LLP

We have served as the Company's auditor since 2012.

Hartford, CT
March 16, 2020

Consolidated Balance Sheets

	December 31, 2019	December 31, 2018
Assets		
Fixed-maturity securities, held-to-maturity, at amortized cost (fair value of \$4,124,767 at December 31, 2019 and \$4,426,416 at December 31, 2018)	\$ 3,825,952	\$ 4,222,855
Fixed-maturity securities, available-for-sale, at fair value (amortized cost of \$162,202,355 at December 31, 2019 and \$155,431,261 at December 31, 2018)	168,236,181	151,777,516
Equity securities, at fair value (cost of \$22,624,668 at December 31, 2019 and \$18,305,986 at December 31, 2018)	24,661,382	16,572,616
Other investments	2,584,913	1,855,225
Total investments	199,308,428	174,428,212
Cash and cash equivalents	32,391,485	21,138,403
Premiums receivable, net	12,706,411	13,961,599
Reinsurance receivables, net	40,750,538	26,367,115
Deferred policy acquisition costs	20,634,378	17,907,737
Intangible assets, net	500,000	670,000
Property and equipment, net	7,620,636	6,056,929
Deferred income taxes, net	311,052	354,233
Other assets	6,979,884	5,867,850
Total assets	\$ 321,202,812	\$ 266,752,078
Liabilities		
Loss and loss adjustment expense reserves	\$ 80,498,611	\$ 56,197,106
Unearned premiums	90,383,238	79,032,131
Advance premiums	3,191,512	2,107,629
Reinsurance balances payable	11,714,724	1,933,376
Deferred ceding commission revenue	7,735,398	2,686,677
Accounts payable, accrued expenses and other liabilities	9,986,317	6,819,231
Income taxes payable	-	15,035
Long-term debt, net	29,471,431	29,295,251
Total liabilities	232,981,231	178,086,436
Commitments and Contingencies (Note 17)		
Stockholders' Equity		
Preferred stock, \$.01 par value; authorized 2,500,000 shares	-	-
Common stock, \$.01 par value, authorized 20,000,000 shares; issued 11,824,889 shares at December 31, 2019 and 11,775,148 shares at December 31, 2018; outstanding 10,797,450 shares at December 31, 2019 and 10,747,709 shares at December 31, 2018	118,248	117,751
Capital in excess of par	69,133,918	67,763,940
Accumulated other comprehensive income (loss)	4,768,870	(2,884,313)
Retained earnings	16,913,097	26,380,816
	90,934,133	91,378,194
Treasury stock, at cost, 1,027,439 shares at December 31, 2019 and at December 31, 2018	(2,712,552)	(2,712,552)
Total stockholders' equity	88,221,581	88,665,642
Total liabilities and stockholders' equity	\$ 321,202,812	\$ 266,752,078

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Operations and Comprehensive Income (Loss)

Years ended December 31,

	2019	2018
Revenues		
Net premiums earned	\$ 127,623,442	\$ 103,414,715
Ceding commission revenue	4,650,851	5,332,630
Net investment income	6,869,346	6,186,248
Net gains (losses) on investments	4,591,019	(2,495,857)
Other income	1,828,362	1,334,162
Total revenues	<u>145,563,020</u>	<u>113,771,898</u>
Expenses		
Loss and loss adjustment expenses	90,182,324	58,295,205
Commission expense	30,193,175	25,342,137
Other underwriting expenses	24,420,208	20,943,342
Other operating expenses	4,177,731	2,575,404
Depreciation and amortization	2,545,946	1,787,150
Interest expense	1,826,180	1,821,597
Total expenses	<u>153,345,564</u>	<u>110,764,835</u>
(Loss) income from operations before taxes	(7,782,544)	3,007,063
Income tax benefit	(1,816,191)	(86,183)
Net (loss) income	<u>(5,966,353)</u>	<u>3,093,246</u>
Other comprehensive income (loss), net of tax		
Gross change in unrealized gains (losses) on available-for-sale-securities	9,564,647	(4,984,149)
Reclassification adjustment for losses included in net (loss) income	122,925	464,254
Net change in unrealized gains (losses)	<u>9,687,572</u>	<u>(4,519,895)</u>
Income tax (expense) benefit related to items of other comprehensive income (loss)	(2,034,389)	949,177
Other comprehensive income (loss), net of tax	<u>7,653,183</u>	<u>(3,570,718)</u>
Comprehensive income (loss)	<u>\$ 1,686,830</u>	<u>\$ (477,472)</u>
(Loss) Earnings per common share:		
Basic	<u>\$ (0.55)</u>	<u>\$ 0.29</u>
Diluted	<u>\$ (0.55)</u>	<u>\$ 0.29</u>
Weighted average common shares outstanding		
Basic	<u>10,773,623</u>	<u>10,686,813</u>
Diluted	<u>10,773,623</u>	<u>10,716,886</u>
Dividends declared and paid per common share	<u>\$ 0.325</u>	<u>\$ 0.400</u>

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Years ended December 31, 2019 and 2018

	Preferred Stock		Common Stock		Capital in Excess of Par	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Total
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance, December 31, 2017, as reported	-	\$ -	11,618,646	\$ 116,186	\$ 68,380,390	\$ 1,100,647	\$ 27,152,822	986,809	\$ (2,172,299)	\$ 94,577,746
Cumulative effect of adoption of updated accounting guidance for equity financial instruments at January 1, 2018	-	-	-	-	-	(414,242)	414,242	-	-	-
Balance, January 1, 2018, as adjusted	-	-	11,618,646	116,186	68,380,390	686,405	27,567,064	986,809	(2,172,299)	94,577,746
Stock-based compensation	-	-	-	-	702,650	-	-	-	-	702,650
Shares deducted from exercise of stock options for payment of withholding taxes	-	-	(72,063)	(719)	(1,356,452)	-	-	-	-	(1,357,171)
Vesting of restricted stock awards	-	-	19,482	190	(190)	-	-	-	-	-
Shares deducted from restricted stock awards for payment of withholding taxes	-	-	(2,877)	(29)	(50,975)	-	-	-	-	(51,004)
Exercise of stock options	-	-	211,960	2,123	88,517	-	-	-	-	90,640
Acquisition of treasury stock	-	-	-	-	-	-	-	40,630	(540,253)	(540,253)
Dividends	-	-	-	-	-	-	(4,279,494)	-	-	(4,279,494)
Net income	-	-	-	-	-	-	3,093,246	-	-	3,093,246
Other comprehensive loss	-	-	-	-	-	(3,570,718)	-	-	-	(3,570,718)
Balance, December 31, 2018	-	-	11,775,148	117,751	67,763,940	(2,884,313)	26,380,816	1,027,439	(2,712,552)	88,665,642
Stock-based compensation	-	-	-	-	1,501,377	-	-	-	-	1,501,377
Vesting of restricted stock awards	-	-	58,246	580	(580)	-	-	-	-	-
Shares deducted from restricted stock awards for payment of withholding taxes	-	-	(11,505)	(113)	(154,339)	-	-	-	-	(154,452)
Exercise of stock options	-	-	3,000	30	23,520	-	-	-	-	23,550
Dividends	-	-	-	-	-	-	(3,501,366)	-	-	(3,501,366)
Net loss	-	-	-	-	-	-	(5,966,353)	-	-	(5,966,353)
Other comprehensive income	-	-	-	-	-	7,653,183	-	-	-	7,653,183
Balance, December 31, 2019	-	\$ -	11,824,889	\$ 118,248	\$ 69,133,918	\$ 4,768,870	\$ 16,913,097	1,027,439	\$ (2,712,552)	\$ 88,221,581

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31,

	2019	2018
Cash flows from operating activities:		
Net (loss) income	\$ (5,966,353)	\$ 3,093,246
Adjustments to reconcile net (loss) income to net cash flows provided by operating activities:		
Net (gains) losses on sale of investments	(28,845)	93,974
Net unrealized (gains) losses of equity investments	(3,832,486)	2,257,727
Net unrealized (gains) losses of other investments	(729,688)	144,156
Depreciation and amortization	2,545,946	1,787,150
Bad debts	(112,761)	(252,492)
Amortization of bond premium, net	417,119	373,014
Amortization of discount and issuance costs on long-term debt	176,180	168,286
Stock-based compensation	1,501,377	702,650
Deferred income tax benefit	(1,991,208)	(5,398)
(Increase) decrease in operating assets:		
Premiums receivable, net	1,367,949	(491,409)
Reinsurance receivables, net	(14,383,423)	2,152,015
Deferred policy acquisition costs	(2,726,641)	(3,060,501)
Other assets	(1,096,732)	(3,215,227)
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	24,301,505	7,397,484
Unearned premiums	11,351,107	13,384,468
Advance premiums	1,083,883	629,936
Reinsurance balances payable	9,781,348	(630,590)
Deferred ceding commission revenue	5,048,721	(1,579,735)
Accounts payable, accrued expenses and other liabilities	3,152,051	(653,388)
Net cash flows provided by operating activities	29,859,049	22,295,366
Cash flows from investing activities:		
Purchase - fixed-maturity securities, available-for-sale	(23,881,518)	(58,542,741)
Purchase - equity securities	(9,578,765)	(13,380,542)
Sale and redemption - fixed-maturity securities, held-to-maturity	400,000	624,963
Sale and maturity - fixed-maturity securities, available-for-sale	16,567,284	21,381,668
Sale - equity securities	5,458,953	9,246,840
Acquisition of fixed assets	(3,939,653)	(2,731,502)
Net cash flows used in investing activities	(14,973,699)	(43,401,314)
Cash flows from financing activities:		
Proceeds from exercise of stock options	23,550	90,640
Withholding taxes paid on net exercise of stock options	-	(1,357,171)
Withholding taxes paid on vested restricted stock awards	(154,452)	(51,004)
Purchase of treasury stock	-	(540,253)
Dividends paid	(3,501,366)	(4,279,494)
Net cash flows used in financing activities	(3,632,268)	(6,137,282)
Increase (decrease) in cash and cash equivalents	\$ 11,253,082	\$ (27,243,230)
Cash and cash equivalents, beginning of period	21,138,403	48,381,633
Cash and cash equivalents, end of period	\$ 32,391,485	\$ 21,138,403
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	\$ 388,000	\$ 2,201,000
Cash paid for interest	\$ 1,650,000	\$ 1,700,417

See accompanying notes to these consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

Note 1 - Nature of Business

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 and individuals 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, 85.0% and 93.7% of KICO's direct written premiums for the years ended December 31, 2019 and 2018, respectively, came from the New York policies. Kingstone, through its subsidiary, Cosi Agency, Inc. ("Cosi"), a multi-state licensed general agency, accesses alternate forms of distribution outside of the independent agent and broker network, through which KICO currently distributes its various products. Kingstone (through Cosi) now has the opportunity to partner with name-brand carriers and access nationwide insurance agencies.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Principles of Consolidation

The consolidated financial statements consist of the financials for Kingstone and its 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 inter-company account balances and transactions have been eliminated in consolidation.

Revenue Recognition

Net Premiums Earned

Insurance policies issued by the Company are short-duration contracts. Accordingly, premium revenues, net of premiums ceded to reinsurers, are recognized as earned in proportion to the amount of insurance protection provided, on a pro-rata basis over the terms of the underlying policies. Unearned premiums represent premiums applicable to the unexpired portions of in-force insurance contracts at the end of each year.

Ceding Commission Revenue

Commissions on reinsurance premiums ceded are earned in a manner consistent with the recognition of the costs of the reinsurance, generally on a pro-rata basis over the terms of the policies reinsured. Unearned amounts are recorded as deferred ceding commission revenue. Certain reinsurance agreements contain provisions whereby the ceding commission rates vary based on the loss experience under the agreements. The Company records ceding commission revenue based on its current estimate of subject losses. The Company records adjustments to ceding commission revenue in the period that changes in the estimated losses are determined.

Loss and Loss Adjustment Expenses (“LAE”) Reserves

The liability for loss and LAE represents management’s best estimate of the ultimate cost of all reported and unreported losses that are unpaid as of the balance sheet date. The liability for loss and LAE is estimated on an undiscounted basis, using individual case-basis valuations, statistical analyses and various actuarial reserving methodologies. The projection of future claim payment and reporting is based on an analysis of the Company’s historical experience, supplemented by analyses of industry loss data. Management believes that the reserves for loss and LAE are adequate to cover the ultimate cost of losses and claims to date; however, because of the uncertainty from various sources, including changes in reporting patterns, claims settlement patterns, judicial decisions, legislation, and economic conditions, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such liability at the balance sheet date. Adjustments to these estimates are reflected in expense for the period in which the estimates are changed. Because of the nature of the business historically written, management believes that the Company has limited exposure to environmental claim liabilities.

Reinsurance

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results. This is done by reinsuring certain levels of risk in various areas of exposure with a panel of financially secure reinsurance carriers.

Reinsurance receivables represents management’s best estimate of paid and unpaid loss and LAE recoverable from reinsurers, and ceded losses receivable and unearned ceded premiums under reinsurance agreements. Ceded losses receivable are estimated using techniques and assumptions consistent with those used in estimating the liability for loss and LAE. Management believes that reinsurance receivables as recorded represent its best estimate of such amounts; however, as changes in the estimated ultimate liability for loss and LAE are determined, the estimated ultimate amount receivable from the reinsurers will also change. Accordingly, the ultimate receivable could be significantly in excess of or less than the amount recorded in the consolidated financial statements. Adjustments to these estimates are reflected in the period in which the estimates are changed. Loss and LAE incurred as presented in the consolidated statements of operations and comprehensive income (loss) are net of reinsurance recoveries.

Management has evaluated its reinsurance arrangements and determined that significant insurance risk is transferred to the reinsurers. Reinsurance agreements have been determined to be short-duration prospective contracts and, accordingly, the costs of the reinsurance are recognized over the life of the contract in a manner consistent with the earning of premiums on the underlying policies subject to the reinsurance contract.

Management estimates uncollectible amounts receivable from reinsurers based on an assessment of factors including the creditworthiness of the reinsurers and the adequacy of collateral obtained, where applicable. There was no allowance for uncollectible reinsurance as of December 31, 2019 and 2018. The Company did not expense any uncollectible reinsurance for the years ended December 31, 2019 and 2018. Significant uncertainties are inherent in the assessment of the creditworthiness of reinsurers and estimates of any uncollectible amounts due from reinsurers. Any change in the ability of the Company’s reinsurers to meet their contractual obligations could have a material adverse effect on the consolidated financial statements as well as KICO’s ability to meet its regulatory capital and surplus requirements.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company maintains its cash balances at several financial institutions.

Investments

The Company classifies its fixed-maturity securities as either held-to-maturity or available-for-sale. Effective January 1, 2018, the Company adopted Accounting Standards Update (“ASU”) 2016-01– Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”), which resulted in changes in the estimated fair value of equity securities and other investments being reported in net income (loss) instead of other comprehensive income (loss). For additional discussion, see Note 2, Accounting Changes. The Company may sell its available-for-sale securities, equity securities, and other investments in response to changes in interest rates, risk/reward characteristics, liquidity needs or other factors. Fixed-maturity securities that the Company has the specific intent and ability to hold until maturity are classified as such and carried at amortized cost.

Available-for-sale securities are reported at their estimated fair values based on quoted market prices from recognized pricing services, with unrealized gains and losses, net of tax effects, reported as a separate component of accumulated other comprehensive income (loss). Realized gains and losses are determined on the specific identification method and reported in net income (loss) in the consolidated statements of operations and comprehensive income (loss).

Equity securities are reported at their estimated fair values based on quoted market prices from recognized pricing services, with unrealized gains and losses reported in net income (loss). Other investments are reported at their estimated fair values using the net asset value (“NAV”) per share (or its equivalent) of the instrument with unrealized gains and losses reported in net income (loss). See Note 3, Investments for additional discussion.

Investment income is accrued to the balance sheet dates of the consolidated financial statements and includes amortization of premium and accretion of discount on fixed-maturity securities. Interest is recognized when earned, while dividends are recognized when declared. Due and accrued investment income totaled approximately \$1,922,000 and \$1,721,000 as of December 31, 2019 and 2018, respectively, and is included in other assets on the accompanying consolidated balance sheets.

Premiums Receivable

Premiums receivable include balances due currently or in the future and are presented net of an allowance for doubtful accounts of approximately \$338,000 and \$255,000 as of December 31, 2019 and 2018, respectively. The allowance for uncollectible amounts is based on an analysis of amounts receivable giving consideration to historical loss experience and current economic conditions and reflects an amount that, in management’s judgment, is adequate. Uncollectible premiums receivable balances of approximately \$113,000 and \$252,000 were written off for the years ended December 31, 2019 and 2018, respectively.

Deferred Policy Acquisition Costs

Policy acquisition costs represent the costs of writing business that vary with, and are primarily related to, the successful production of insurance business (principally commissions, premium taxes and certain underwriting salaries). Policy acquisition costs are deferred and recognized as expense as related premiums are earned.

Intangible Assets

The Company has recorded acquired identifiable intangible assets. The cost of a group of assets acquired in a transaction is allocated to the individual assets including identifiable intangible assets based on their fair values. Identifiable intangible assets with a finite useful life are amortized over the period that the asset is expected to contribute directly or indirectly to the future cash flows of the Company. Intangible assets with an indefinite life are not amortized, but are subject to impairment testing if events or changes in circumstances indicate that it is more likely than not the asset is impaired. All identifiable intangible assets are tested for recoverability whenever events or changes in circumstances indicate that a carrying amount may not be recoverable. No impairment losses from intangible assets were recognized for the years ended December 31, 2019 and 2018.

Property and Equipment

Building and building improvements, automobiles, furniture, computer equipment, and computer software are reported at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. The Company estimates the useful life for computer equipment, computer software, automobiles, furniture and other equipment is three years, and building and building improvements is 39 years.

The Company reviews its real estate assets used as its headquarters to evaluate the necessity of recording impairment losses for market changes due to declines in the estimated fair value of the property. In evaluating potential impairment, management considers the current estimated fair value compared to the carrying value of the asset. At December 31, 2019 and 2018, the fair value of the real estate assets is estimated to be in excess of the carrying value.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax basis and for operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income (loss) in the period that includes the enactment date. The Company files a consolidated tax return with its subsidiaries. At December 31, 2019 and 2018, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required.

Assessments

Insurance related assessments are accrued in the period in which they have been incurred. A typical obligating event would be the issuance of an insurance policy or the occurrence of a claim. The Company is subject to a variety of assessments.

Concentration, Credit Risk and Market Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents, investments, and premium and reinsurance receivables. At times, cash may be uninsured or in deposit accounts that exceed Federal Deposit Insurance Corporation (“FDIC”) insurance limits. The Company has not experienced any losses on such accounts and management believes the Company is not exposed to any significant credit risk.

Stressed conditions, volatility and disruptions in capital markets or financial asset classes can have an adverse effect on the Company, in part because the Company has a large investment portfolio supporting the Company’s insurance liabilities, which are sensitive to changing market factors. These market factors, which include interest rates, credit spread, equity prices, and the volatility and strength of the capital markets, all affect the business and economic environment and, ultimately, the profitability of the Company’s business. The Company manages its investments to limit credit and other market risks by diversifying its portfolio among various security types and industry sectors based on KICO’s investment committee guidelines, which employs a variety of investment strategies.

As of December 31, 2019 and 2018, the Company’s cash equivalents were as follows:

	December 31, 2019	December 31, 2018
Collateralized bank repurchase agreement (1)	\$ 941,792	\$ 568,123
Money market funds	12,583,957	15,012,559
Total	\$ 13,525,749	\$ 15,580,682

(1) The Company has a security interest in certain of the bank’s holdings of direct obligations of the United States or one or more agencies thereof. The collateral is held in a hold-in-custody arrangement with a third party who maintains physical possession of the collateral on behalf of the bank.

At December 31, 2019, the outstanding premiums receivable balance is generally diversified due to the large number of individual insureds comprising the Company’s customer base. Approximately 85% of the Company’s customer base is concentrated in the New York City metropolitan area.

The Company also has receivables from its reinsurers. Reinsurance contracts do not relieve the Company of its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company periodically evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. See Note 7 for reinsurance recoverables on unpaid and paid losses by reinsurer. Management’s policy is to review all outstanding receivables quarterly as well as the bad debt write-offs experienced in the past and establish an allowance for doubtful accounts, if deemed necessary.

Direct premiums earned from lines of business in excess of 10% of the total subject the Company to concentration risk for the years ended December 31, 2019 and 2018 as follows:

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Personal Lines	83.5%	80.7%
Commercial Lines	n/a	11.6%
Total premiums earned subject to concentration	83.5%	92.3%
Premiums earned not subject to concentration (1)	16.5%	7.7%
Total premiums earned	100.0%	100.0%

Premiums earned not subject to concentration is comprised of two different lines of business.

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, and includes the reserves for losses and LAE, which are subject to estimation errors due to the inherent uncertainty in projecting ultimate claim amounts that will be reported and settled over a period of many years. In addition, estimates and assumptions associated with receivables under reinsurance contracts related to contingent ceding commission revenue require judgments by management. On an on-going basis, management reevaluates its assumptions and the methods for calculating these estimates. Actual results may differ significantly from the estimates used in preparing the consolidated financial statements.

Earnings per share

Basic earnings per common share is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings per common share reflects, in periods in which they have a dilutive effect, the impact of common shares issuable upon the exercise of stock options as well as non-vested restricted stock awards. The computation of diluted earnings per share excludes those options with an exercise price in excess of the average market price of the Company's common shares during the periods presented. Additionally, the computation of diluted earnings per share excludes unvested restricted stock awards as calculated using the treasury stock method.

Advertising Costs

Advertising costs are charged to operations as incurred. Advertising costs are included in other underwriting expenses in the accompanying consolidated statements of operations and comprehensive income (loss) and were approximately \$153,000 and \$173,000 for the years ended December 31, 2019 and 2018, respectively.

Stock-based Compensation

Stock-based compensation expense in 2019 and 2018 is the estimated fair value of restricted stock awards and options granted, amortized on a straight-line basis over the requisite service period for the entire portion of the award less an estimate for anticipated forfeitures. The Company uses the “simplified” method to estimate the expected term of the options because the Company’s historical share option exercise experience does not provide a reasonable basis upon which to estimate expected term.

Compensated Absences

Employees of the Company are entitled to paid vacations, sick days, and other time off depending on job classification, length of service and other factors. The Company has determined it is impracticable to estimate the amount of compensation of future absences and, accordingly, no liability has been recorded in the accompanying consolidated financial statements. The Company’s policy is to recognize the cost of compensated absences when paid to employees.

Comprehensive Income (Loss)

Comprehensive income (loss) refers to revenues, expenses, gains and losses that are included in comprehensive income (loss) but are excluded from net income (loss) as these amounts are recorded directly as an adjustment to stockholders' equity, primarily from changes in unrealized gains and losses on available-for-sale securities, and related income taxes.

Accounting Changes

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

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

In May 2014, the FASB issued ASU 2014-09 – Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”). The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Company adopted ASU 2014-09 effective January 1, 2018. The standard excludes from its scope the accounting for insurance contracts, financial instruments, and certain other agreements that are governed under other GAAP guidance. Accordingly, the adoption of ASU 2014-09, as amended, did not have a material impact on the Company’s consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01. Effective January 1, 2018, the Company adopted the provisions of ASU 2016-01. The updated guidance requires equity investments, including limited partnership interests, except those accounted for under the equity method of accounting, that have a readily determinable fair value to be measured at fair value with any changes in fair value recognized in net income. Equity securities that do not have readily determinable fair values may be measured at estimated fair value or cost less impairment, if any, adjusted for subsequent observable price changes, with changes in the carrying value recognized in net income. A qualitative assessment for impairment is required for equity investments without readily determinable fair values. The updated guidance also eliminates the requirement to disclose the method and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the balance sheet. The adoption of this guidance resulted in the recognition of approximately \$414,000 of net after-tax unrealized gains on equity investments as a cumulative effect adjustment that increased retained earnings as of January 1, 2018 and decreased accumulated other comprehensive income (loss) (“AOCI”) by the same amount. For the year ended December 31, 2018, net loss on investments of approximately \$2,496,000 were recorded in the consolidated statements of operations and comprehensive income (loss), which includes net losses of approximately \$2,402,000 from the estimated fair value change of equity securities and other investments.

In August 2016, the FASB issued ASU 2016-15 – Statement of Cash Flows (Topic 320): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”). The revised ASU provides accounting guidance for eight specific cash flow issues. The FASB issued the standard to clarify areas where GAAP has been either unclear or lacking in specific guidance. The Company adopted ASU 2016-15 effective January 1, 2018, and it did not have a material impact on the Company’s consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting (“ASU 2017-09”). ASU 2017-09 clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The Company adopted this ASU effective January 1, 2018 on a prospective basis and it did not have a material impact on the Company’s consolidated financial statements.

Recent 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 consolidated financial statements.

In December 2019, the FASB issued 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. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on its financial condition and results of operations.

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

Note 3 - Investments

Available-for-Sale Securities

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

Category	December 31, 2019					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	Net Unrealized Gains/ (Losses)
			Less than 12 Months	More than 12 Months		
Fixed-Maturity Securities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 7,037,856	\$ 23,244	\$ -	\$ -	\$ 7,061,100	\$ 23,244
Political subdivisions of States, Territories and Possessions	9,151,293	181,835	(11,316)	-	9,321,812	170,519
Corporate and other bonds						
Industrial and miscellaneous	119,874,573	5,777,624	(16,685)	(13,473)	125,622,039	5,747,466
Residential mortgage and other asset backed securities (1)	26,138,633	437,841	(68,793)	(276,451)	26,231,230	92,597
Total	\$ 162,202,355	\$ 6,420,544	\$ (96,794)	\$ (289,924)	\$ 168,236,181	\$ 6,033,826

- (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 9). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from the FHLBNY credit line. As of December 31, 2019, the estimated fair value of the eligible investments was approximately \$7,284,000. KICO will retain all rights regarding all securities if pledged as collateral. As of December 31, 2019, there was no outstanding balance on the FHLBNY credit line.

December 31, 2018

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

(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 9). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from the FHLBNY credit line. As of December 31, 2018, the estimated fair value of the eligible investments was approximately \$5,116,000. KICO will retain all rights regarding all securities if pledged as collateral. As of December 31, 2018, there was no outstanding balance on the FHLBNY credit line.

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

Remaining Time to Maturity	December 31, 2019		December 31, 2018	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Less than one year	\$ 11,986,401	\$ 12,025,804	\$ 6,742,519	\$ 6,738,014
One to five years	49,715,422	51,000,025	47,038,838	46,640,012
Five to ten years	69,850,104	74,410,275	76,884,505	74,290,076
More than 10 years	4,511,795	4,568,847	2,974,426	2,644,180
Residential mortgage and other asset backed securities	26,138,633	26,231,230	21,790,973	21,465,234
Total	\$ 162,202,355	\$ 168,236,181	\$ 155,431,261	\$ 151,777,516

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

Equity Securities

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

Category	December 31, 2019			
	Cost	Gross Gains	Gross Losses	Estimated Fair Value
Equity Securities:				
Preferred stocks	\$ 8,374,424	\$ 339,257	\$ (11,794)	\$ 8,701,887
Common stocks, mutual funds, and exchange traded funds	14,250,244	1,982,878	(273,627)	15,959,495
Total	<u>\$ 22,624,668</u>	<u>\$ 2,322,135</u>	<u>\$ (285,421)</u>	<u>\$ 24,661,382</u>

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

Other Investments

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

Category	December 31, 2019			December 31, 2018		
	Cost	Gross Gains	Estimated Fair Value	Cost	Gross Losses	Estimated Fair Value
Other Investments:						
Hedge fund	\$ 1,999,381	\$ 585,532	\$ 2,584,913	\$ 1,999,381	\$ (144,156)	\$ 1,855,225
Total	<u>\$ 1,999,381</u>	<u>\$ 585,532</u>	<u>\$ 2,584,913</u>	<u>\$ 1,999,381</u>	<u>\$ (144,156)</u>	<u>\$ 1,855,225</u>

Held-to-Maturity Securities

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

Category	December 31, 2019					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	Net Unrealized Gains/(Losses)
			Less than 12 Months	More than 12 Months		
Held-to-Maturity Securities:						
U.S. Treasury securities	\$ 729,550	\$ 151,002	\$ -	\$ -	\$ 880,552	\$ 151,002
Political subdivisions of States, Territories and Possessions	998,619	51,021	-	-	1,049,640	51,021
Corporate and other bonds						
Industrial and miscellaneous	2,097,783	97,627	(835)	-	2,194,575	96,792
Total	\$ 3,825,952	\$ 299,650	\$ (835)	\$ -	\$ 4,124,767	\$ 298,815

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

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

Remaining Time to Maturity	December 31, 2019		December 31, 2018	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Less than one year	\$ 500,000	\$ 499,165	\$ -	\$ -
One to five years	2,099,268	2,215,640	2,996,685	3,036,531
Five to ten years	620,134	655,923	619,663	635,846
More than 10 years	606,550	754,039	606,507	754,039
Total	\$ 3,825,952	\$ 4,124,767	\$ 4,222,855	\$ 4,426,416

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

Investment Income

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

	Years ended December 31,	
	2019	2018
Income:		
Fixed-maturity securities	\$ 5,943,889	\$ 5,316,970
Equity securities	930,004	820,827
Cash and cash equivalents	337,602	219,238
Total	7,211,495	6,357,035
Expenses:		
Investment expenses	342,149	170,787
Net investment income	\$ 6,869,346	\$ 6,186,248

Proceeds from the sale and redemption of fixed-maturity securities held-to-maturity were \$400,000 and \$624,963 for the years ended December 31, 2019 and 2018, respectively.

Proceeds from the sale and maturity of fixed-maturity securities available-for-sale were \$16,567,284 and \$21,381,668 for the years ended December 31, 2019 and 2018, respectively.

Proceeds from the sale of equity securities were \$5,458,953 and \$9,246,840 for the years ended December 31, 2019 and 2018, respectively.

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

	Years ended	
	December 31,	
	2019	2018
Realized Gains (Losses)		
Fixed-maturity securities:		
Gross realized gains	\$ 11,608	\$ 117,186
Gross realized losses	(134,533)	(618,699)
	<u>(122,925)</u>	<u>(501,513)</u>
Equity securities:		
Gross realized gains	316,924	992,012
Gross realized losses	(165,154)	(584,473)
	<u>151,770</u>	<u>407,539</u>
Net realized gains (losses)	<u>28,845</u>	<u>(93,974)</u>
Unrealized Gains (Losses)		
Equity Securities:		
Gross gains	3,832,486	-
Gross losses	-	(2,257,727)
	<u>3,832,486</u>	<u>(2,257,727)</u>
Other Investments:		
Gross gains	729,688	-
Gross losses	-	(144,156)
	<u>729,688</u>	<u>(144,156)</u>
Net unrealized gains (losses)	<u>4,562,174</u>	<u>(2,401,883)</u>
Net gains (losses) on investments	<u>\$ 4,591,019</u>	<u>\$ (2,495,857)</u>

Impairment Review

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

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 December 31, 2019 and December 31, 2018, there were 39 and 156 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 years ended December 31, 2019 and 2018. Significant factors influencing the Company's determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent and ability to 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 December 31, 2019 and 2018 as follows:

Category	December 31, 2019								
	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	3,067,428	(11,316)	3	-	-	-	3,067,428	(11,316)	
Corporate and other bonds industrial and miscellaneous	3,730,478	(16,685)	7	1,300,915	(13,473)	3	5,031,393	(30,158)	
Residential mortgage and other asset backed securities	5,862,636	(68,793)	5	13,534,768	(276,451)	21	19,397,404	(345,244)	
Total fixed-maturity securities	\$ 12,660,542	\$ (96,794)	15	\$ 14,835,683	\$ (289,924)	24	\$ 27,496,225	\$ (386,718)	

December 31, 2018

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

Note 4 - Fair Value Measurements

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

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

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

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

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

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

The Company's investments measured at fair value on a recurring basis are allocated among fair value levels at December 31, 2019 and 2018 as follows:

	December 31, 2019			Total
	Level 1	Level 2	Level 3	
Fixed-maturity securities available-for-sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 7,061,100	\$ -	\$ -	\$ 7,061,100
Political subdivisions of States, Territories and Possessions	-	9,321,812	-	9,321,812
Corporate and other bonds industrial and miscellaneous	123,010,772	2,611,267	-	125,622,039
Residential mortgage backed securities	-	26,231,230	-	26,231,230
Total fixed maturities	130,071,872	38,164,309	-	168,236,181
Equity securities	24,661,382	-	-	24,661,382
Total investments	\$ 154,733,254	\$ 38,164,309	\$ -	\$ 192,897,563

	December 31, 2018			Total
	Level 1	Level 2	Level 3	
Fixed-maturity securities available-for-sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 8,220,381	\$ -	\$ -	\$ 8,220,381
Political subdivisions of States, Territories and Possessions	-	6,341,608	-	6,341,608
Corporate and other bonds industrial and miscellaneous	112,076,270	3,674,023	-	115,750,293
Residential mortgage backed securities	-	21,465,234	-	21,465,234
Total fixed maturities	120,296,651	31,480,865	-	151,777,516
Equity securities	16,572,616	-	-	16,572,616
Total investments	\$ 136,869,267	\$ 31,480,865	\$ -	\$ 168,350,132

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

Category	December 31, 2019		December 31, 2018	
Other Investments:				
Hedge fund	\$	2,584,913	\$	1,855,225
Total	\$	2,584,913	\$	1,855,225

The investment is generally redeemable with at least 45 days prior written notice. The hedge fund investment is accounted for as a limited partnership by the Company. Revenue 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 accompanying 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 December 31, 2019 and 2018, which is not measured at fair value is as follows:

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Long-term debt				
Senior Notes due 2022	\$ -	\$ 27,313,994	\$ -	\$ 27,313,994

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

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

Note 5 - Fair Value of Financial Instruments and Real Estate

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

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

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

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

Real estate: The estimated fair value was based on an appraisal prepared using the sales comparison approach, and accordingly the real estate is a Level 3 asset under the fair value hierarchy.

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

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

	December 31, 2019		December 31, 2018	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Fixed-maturity securities-held-to maturity	\$ 3,825,952	\$ 4,124,767	\$ 4,222,855	\$ 4,426,416
Cash and cash equivalents	\$ 32,391,485	\$ 32,391,485	\$ 21,138,403	\$ 21,138,403
Premiums receivable, net	\$ 12,706,411	\$ 12,706,411	\$ 13,961,599	\$ 13,961,599
Reinsurance receivables, net	\$ 40,750,538	\$ 40,750,538	\$ 26,367,115	\$ 26,367,115
Real estate, net of accumulated depreciation	\$ 2,292,743	\$ 2,705,000	\$ 2,300,827	\$ 2,705,000
Reinsurance balances payable	\$ 11,714,724	\$ 11,714,724	\$ 1,933,376	\$ 1,933,376

Note 6 - Intangible Assets

Intangible assets consist of finite and indefinite life assets. Finite life intangible assets include customer and producer relationships and other identifiable intangibles. KICO's insurance company license is considered an indefinite life intangible asset subject to annual impairment testing. All identified intangible assets of finite useful life were fully amortized as of December 31, 2019.

The components of intangible assets and their useful lives, accumulated amortization, and net carrying value as of December 31, 2019 and 2018 are summarized as follows:

	Useful Life (in yrs)	December 31, 2019			December 31, 2018		
		Gross Carrying Value	Accumulated Amortization	Net Carrying Amount	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount
Insurance license	-	\$ 500,000	\$ -	\$ 500,000	\$ 500,000	\$ -	\$ 500,000
Customer relationships	10	3,400,000	3,400,000	-	3,400,000	3,230,000	170,000
Other identifiable intangibles	7	950,000	950,000	-	950,000	950,000	-
Total		\$ 4,850,000	\$ 4,350,000	\$ 500,000	\$ 4,850,000	\$ 4,180,000	\$ 670,000

Intangible asset impairment testing and amortization

The Company performs an analysis annually as of December 31, or sooner if there are indicators that the asset may be impaired, to identify potential impairment of intangible assets with both finite and indefinite lives and measures the amount of any impairment loss that may need to be recognized. Intangible asset impairment testing requires an evaluation of the estimated fair value of each identified intangible asset to its carrying value. An impairment charge would be recorded if the estimated fair value is less than the carrying amount of the intangible asset. No impairments have been identified for the years ended December 31, 2019 and 2018.

The Company recorded amortization expense related to intangible assets of \$170,000 and \$340,000, for the years ended December 31, 2019 and 2018, respectively.

Note 7 - Reinsurance

Through June 30, 2019, the Company's quota share reinsurance treaties were on a July 1 through June 30 fiscal year basis. Effective December 15, 2019, the Company entered into a quota share reinsurance treaty for its personal lines business, which primarily consists of homeowners' policies, covering the period from December 15, 2019 through December 31, 2020 ("2019/2020" Treaty). In addition to the 2019/2020 Treaty, the Company's quota share reinsurance treaties in effect during the years ended December, 2019 and 2018 for its personal lines business were covered under a treaty covering a two-year period from July 1, 2017 through June 30, 2019 ("2017/2019 Treaty"). The treaty in effect during the year ended December 31, 2019 was covered under the July 1, 2018 through June 30, 2019 treaty year ("2018/2019 Treaty Year"). The treaties in effect during the year ended December 31, 2018 were covered under the July 1, 2017 through June 30, 2018 treaty year ("2017/2018 Treaty Year") and the 2018/2019 Treaty Year that began on July 1, 2018.

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

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

Line of Business	Treaty Year			
	December 15, 2019 to December 31, 2020	July 1, 2019 to December 14, 2019	July 1, 2018 to June 30, 2019	July 1, 2017 to June 30, 2018
Personal Lines:				
Homeowners, dwelling fire and and canine legal liability				
Quota share treaty:				
Percent ceded	25%	None	10%	20%

Line of Business	Treaty Year			
	December 15, 2019 to June 30, 2020	July 1, 2019 to December 14, 2019	July 1, 2018 to June 30, 2019	July 1, 2017 to June 30, 2018
Personal Lines:				
Homeowners, dwelling fire and and canine legal liability				
Quota share treaty:				
Risk retained on initial \$1,000,000 of losses	\$ 750,000	\$ 1,000,000	\$ 900,000	\$ 800,000
Losses per occurrence subject to quota share reinsurance coverage	\$ 1,000,000	None	\$ 1,000,000	\$ 1,000,000
Excess of loss coverage and facultative facility coverage (1)	\$ 9,000,000	\$ 9,000,000	\$ 9,000,000	\$ 9,000,000
	in excess of \$ 1,000,000	in excess of \$ 1,000,000	in excess of \$ 1,000,000	in excess of \$ 1,000,000
Total reinsurance coverage per occurrence	\$ 9,250,000	\$ 9,000,000	\$ 9,100,000	\$ 9,200,000
Losses per occurrence subject to reinsurance coverage	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000
Expiration date	June 30, 2020	June 30, 2020	June 30, 2019	June 30, 2018

Catastrophe Reinsurance:				
Initial loss subject to personal lines quota share treaty	\$ 7,500,000	None	\$ 5,000,000	\$ 5,000,000
Risk retained per catastrophe occurrence (2)	\$ 5,625,000	\$ 7,500,000	\$ 4,500,000	\$ 4,000,000
Catastrophe loss coverage in excess of quota share coverage (3)	\$ 602,500,000	\$ 602,500,000	\$ 445,000,000	\$ 315,000,000
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.

(2) Plus losses in excess of catastrophe coverage.

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

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

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

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

Line of Business	Treaty Year		
	July 1, 2019 to June 30, 2020	July 1, 2018 to June 30, 2019	July 1, 2017 to June 30, 2018
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 dollars of coverage	100%	100%	100%
Risk retained	\$ 100,000	\$ 100,000	\$ 100,000
Total reinsurance coverage per occurrence	\$ 4,900,000	\$ 4,900,000	\$ 4,900,000
Losses per occurrence subject to quota share reinsurance coverage	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000
Expiration date	June 30, 2020	June 30, 2019	June 30, 2018
Commercial Lines:			
General liability commercial policies			
Quota share treaty			
Risk retained	None	None	None
Excess of loss coverage above risk retained	\$ 3,750,000	\$ 3,750,000	\$ 3,750,000
	in excess of	in excess of	in excess of
	\$ 750,000	\$ 750,000	\$ 750,000
Total reinsurance coverage per occurrence	\$ 3,750,000	\$ 3,750,000	\$ 3,750,000
Losses per occurrence subject to reinsurance coverage	\$ 4,500,000	\$ 4,500,000	\$ 4,500,000
Commercial Umbrella			
Quota share treaty:			
Percent ceded - first \$1,000,000 of coverage	None	90%	90%
Percent ceded - excess of \$1,000,000 of coverage		100%	100%
Risk retained		\$ 100,000	\$ 100,000
Total reinsurance coverage per occurrence		\$ 4,900,000	\$ 4,900,000
Losses per occurrence subject to quota share reinsurance coverage		\$ 5,000,000	\$ 5,000,000
Expiration date		June 30, 2019	June 30, 2018

Approximate reinsurance recoverables on unpaid and paid losses by reinsurer at December 31, 2019 and 2018 are as follows:

(\$ in thousands)	Unpaid Losses	Paid Losses	Total	Security	
December 31, 2019					
Cavello Bay Reinsurance Limited (1)	\$ 4,036	\$ 2,427	\$ 6,463	\$ 5,995	(2)
Swiss Reinsurance America Corporation	4,418	1,336	5,754	-	
Hanover Rueck SE	3,156	522	3,678	-	
SCOR Reinsurance Company	394	458	852	-	
Allied World Assurance Company	760	170	930	-	
Others	2,964	471	3,435	-	
Total	\$ 15,728	\$ 5,384	\$ 21,113	\$ 5,995	
December 31, 2018					
Cavello Bay Reinsurance Limited (1)	\$ 5,319	\$ 1,277	\$ 6,596	\$ 7,548	(2)
Swiss Reinsurance America Corporation	4,499	1,251	5,750	-	
Hanover Rueck SE	2,728	1,181	3,909	-	
SCOR Reinsurance Company	528	89	617	-	
Allied World Assurance Company	306	373	679	-	
Others	2,291	282	2,573	58	(3)
Total	\$ 15,671	\$ 4,453	\$ 20,125	\$ 7,606	

(Columns in the tables above may not sum to totals due to rounding)

(1) On December 27, 2018, Enstar Group Limited announced that one of its wholly owned subsidiaries, Cavello Bay Reinsurance Limited acquired Maiden Reinsurance North America, Inc.

(2) Secured pursuant to collateralized trust agreements.

(3) Represents \$53,000 secured pursuant to collateralized trust agreement and \$5,000 guaranteed by an irrevocable letter of credit.

Assets held in the trusts referred to in footnotes (2) and (3) in the table above are not included in the Company's invested assets and investment income earned on these assets is credited to the reinsurers respectively. In addition to reinsurance recoverables on unpaid and paid losses, reinsurance receivables in the accompanying consolidated balance sheets as of December 31, 2019 and 2018 include unearned ceded premiums of approximately \$19,638,000 and \$6,243,000, respectively.

Ceding Commission Revenue

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

The Company's estimated ultimate treaty year loss ratios (the "Loss Ratio(s)") for treaties in effect during the year ended December 31, 2019 are attributable to contracts under: (1) the 2017/2019 Treaty for the 2018/2019 Treaty Year, which expired on June 30, 2019 and was not renewed, and (2) the 2019/20 Treaty. The Loss Ratios for treaties in effect for the year ended December 31, 2018 are attributable to contracts under the 2017/2019 Treaty for both the 2017/2018 Treaty Year and the 2018/2019 Treaty Year.

Treaties in effect for the year ended December 31, 2019

Under the 2019/2020 Treaty, the Company receives an upfront fixed provisional rate that is not subject to a sliding scale contingent adjustment. Under the 2017/2019 Treaty, the Company received an upfront fixed provisional rate that was only subject to a sliding scale contingent adjustment based upon Loss Ratio for the 2017/2018 Treaty Year ("Loss Period"). Under this arrangement, the Company earned provisional ceding commissions that were subject to later adjustment dependent on changes to the estimated Loss Period Loss Ratio for the 2017/2019 Treaty. The Company's Loss Period Loss Ratios attributable to the 2017/2019 Treaty reached the maximum contractual level during the six months ended June 30, 2018, and therefore no contingent commission adjustment was recorded for the year ended December 31, 2019.

Treaty in effect for the year ended December 31, 2018

Under the 2017/2019 Treaty, the Company received an upfront fixed provisional rate that was only subject to a sliding scale contingent adjustment based upon Loss Ratio for the 2017/2018 Treaty Year ("Loss Period"). For the year ended December 31, 2018, the Company incurred negative contingent ceding commissions as a result of the Loss Period Loss Ratio for the 2017/2019 Treaty, which reduced contingent ceding commissions earned.

In addition to the treaties that were in effect during the years ended December 31, 2019 and 2018, the Loss Ratios from prior years' treaties are subject to change as incurred losses from those periods increase or decrease, resulting in an increase or decrease in the commission rate and contingent ceding commissions earned.

Ceding commission revenues earned consists of the following:

	Years ended December 31,	
	2019	2018
Provisional ceding commissions earned	\$ 5,446,370	\$ 6,745,928
Contingent ceding commissions earned	(795,519)	(1,413,298)
	<u>\$ 4,650,851</u>	<u>\$ 5,332,630</u>

Provisional ceding commissions are settled monthly. Balances due from reinsurers for contingent ceding commissions on quota share treaties are settled annually based on the Loss Ratio of each treaty year that ends on June 30. As discussed above, the Loss Ratios from prior years' treaties are subject to change as incurred losses from those periods develop, resulting in an increase or decrease in the commission rate and contingent ceding commissions earned. As of December 31, 2019 and 2018, net contingent ceding commissions payable to reinsurers under all treaties was approximately \$2,886,000 and \$1,581,000, respectively, which is recorded in reinsurance balances payable on the accompanying consolidated balance sheets.

Note 8 - Deferred Policy Acquisition Costs and Deferred Ceding Commission Revenue

Deferred policy acquisition costs incurred and policy-related ceding commission revenue are deferred and amortized to income on property and casualty insurance business as follows:

	Years ended December 31,	
	2019	2018
Net deferred policy acquisition costs, net of ceding commission revenue, beginning of year	\$ 15,221,060	\$ 10,580,824
Cost incurred and deferred:		
Commissions and brokerage	32,541,094	27,687,907
Other underwriting and policy acquisition costs	9,423,340	8,227,992
Ceding commission revenue	(10,495,091)	(5,166,193)
Net deferred policy acquisition costs	31,469,343	30,749,706
Return of deferred ceding commission revenue due to reduction of quota share	-	(2,413,273)
Amortization	(33,791,423)	(23,696,197)
	(2,322,080)	4,640,236
Net deferred policy acquisition costs, net of ceding commission revenue, end of year	\$ 12,898,980	\$ 15,221,060

Deferred policy acquisition costs and deferred ceding commission revenue as of December 31, 2019 and 2018 are as follows:

	December 31,	
	2019	2018
Deferred policy acquisition costs	\$ 20,634,378	\$ 17,907,737
Deferred ceding commission revenue	(7,735,398)	(2,686,677)
Balance at end of period	\$ 12,898,980	\$ 15,221,060

Note 9 – DebtFederal Home Loan Bank

In July 2017, KICO became a member of, and invested in, the Federal Home Loan Bank of New York (“FHLBNY”). The aggregate fair value of the investment in dividend bearing common stock was \$15,180 and \$18,400 as of December 31, 2019 and 2018, respectively. FHLBNY members have access to a variety of flexible, low cost funding through FHLBNY’s credit products, enabling members to customize advances, which are to be fully collateralized. Eligible collateral to pledge to FHLBNY includes residential and commercial mortgage backed securities, along with U.S. Treasury and agency securities. See Note 3 – Investments for eligible collateral held in a designated custodian account available for future advances. Advances are limited to 5% of KICO’s net admitted assets as of the previous quarter and are due and payable within one year of borrowing. The maximum allowable advance as of December 31, 2019 was approximately \$11,888,000. Advances are limited to 90% of the amount of available collateral, which was approximately \$6,556,000 as of December 31, 2019. There were no borrowings under this facility during the years ended December 31, 2019 and 2018.

Long-term Debt

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

	December 31, 2019	December 31, 2018
5.50% Senior Unsecured Notes	\$ 30,000,000	\$ 30,000,000
Discount	(97,325)	(129,796)
Issuance costs	(431,244)	(574,953)
Long-term debt, net	<u>\$ 29,471,431</u>	<u>\$ 29,295,251</u>

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

The Company used \$25,000,000 of the net proceeds from the offering to contribute capital to KICO in order to support additional growth. The remainder of the net proceeds is being used for general corporate purposes. A registration statement relating to the debt issued in the offering was filed with the SEC, which became effective on November 28, 2017. On December 4, 2019, the Company contributed additional capital of \$3,256,335 to KICO to further support growth.

Note 10 - Property and Equipment

The components of property and equipment are summarized as follows:

	Cost	Accumulated Depreciation	Net
December 31, 2019			
Building	\$ 2,344,188	\$ (663,200)	\$ 1,680,988
Land	652,437	-	652,437
Furniture office equipment	802,325	(656,204)	146,121
Leasehold improvements	18,996	(226)	18,770
Computer equipment and software	10,861,385	(5,813,308)	5,048,077
Automobile	99,352	(25,109)	74,243
Total	\$ 14,778,683	\$ (7,158,047)	\$ 7,620,636
December 31, 2018			
Building	\$ 2,231,967	\$ (554,077)	\$ 1,677,890
Land	622,937	-	622,937
Furniture office equipment	723,217	(586,010)	137,207
Computer equipment and software	7,240,613	(3,621,718)	3,618,895
Total	\$ 10,818,734	\$ (4,761,805)	\$ 6,056,929

Depreciation expense for the years ended December 31, 2019 and 2018 was \$2,375,946 and \$1,447,150, respectively.

Note 11 - Property and Casualty Insurance Activity

Premiums written, ceded and earned are as follows:

	Direct	Assumed	Ceded	Net
Year ended December 31, 2019				
Premiums written	\$ 171,214,091	\$ 939	\$ (45,635,899)	\$ 125,579,131
Change in unearned premiums	(11,350,864)	(243)	13,395,418	2,044,311
Premiums earned	<u>\$ 159,863,227</u>	<u>\$ 696</u>	<u>\$ (32,240,481)</u>	<u>\$ 127,623,442</u>
Year ended December 31, 2018				
Premiums written	\$ 146,716,468	\$ 1,004	\$ (26,923,679)	\$ 119,793,793
Change in unearned premiums	(13,388,535)	4,067	(2,994,610)	(16,379,078)
Premiums earned	<u>\$ 133,327,933</u>	<u>\$ 5,071</u>	<u>\$ (29,918,289)</u>	<u>\$ 103,414,715</u>

Premium receipts in advance of the policy effective date are recorded as advance premiums. The balance of advance premiums as of December 31, 2019 and December 31, 2018 was \$3,191,512 and \$2,107,629, respectively.

The components of the liability for loss and LAE expenses and related reinsurance receivables as of December 31, 2019 and 2018 are as follows:

	Gross Liability	Reinsurance Receivables
December 31, 2019		
Case-basis reserves	\$ 48,688,643	\$ 12,894,469
Loss adjustment expenses	12,606,236	1,416,686
IBNR reserves	19,203,732	1,417,070
Recoverable on unpaid losses		15,728,225
Recoverable on paid losses	-	5,384,325
Total loss and loss adjustment expenses	<u>\$ 80,498,611</u>	21,112,550
Unearned premiums		19,637,988
Total reinsurance receivables		<u>\$ 40,750,538</u>
December 31, 2018		
Case-basis reserves	\$ 35,812,037	\$ 12,283,616
Loss adjustment expenses	9,102,862	1,433,170
IBNR reserves	11,282,207	1,954,461
Recoverable on unpaid losses		15,671,247
Recoverable on paid losses	-	4,453,298
Total loss and loss adjustment expenses	<u>\$ 56,197,106</u>	20,124,545
Unearned premiums		6,242,570
Total reinsurance receivables		<u>\$ 26,367,115</u>

The following table provides a reconciliation of the beginning and ending balances for unpaid losses and LAE:

	Years ended	
	December 31,	
	2019	2018
Balance at beginning of period	\$ 56,197,106	\$ 48,799,622
Less reinsurance recoverables	(15,671,247)	(16,748,908)
Net balance, beginning of period	<u>40,525,859</u>	<u>32,050,714</u>
Incurred related to:		
Current year	79,044,301	57,143,077
Prior years	11,138,023	1,152,128
Total incurred	<u>90,182,324</u>	<u>58,295,205</u>
Paid related to:		
Current year	42,861,207	34,025,387
Prior years	23,076,588	15,794,673
Total paid	<u>65,937,795</u>	<u>49,820,060</u>
Net balance at end of period	64,770,387	40,525,859
Add reinsurance recoverables	15,728,224	15,671,247
Balance at end of period	<u>\$ 80,498,611</u>	<u>\$ 56,197,106</u>

Incurred losses and LAE are net of reinsurance recoveries under reinsurance contracts of \$12,769,015 and \$14,482,712 for the years ended December 31, 2019 and 2018, respectively.

Prior year incurred loss and LAE development is based upon estimates by line of business and accident year. Prior year loss and LAE development incurred during the years ended December 31, 2019 and 2018 was \$11,138,023 unfavorable and \$1,152,128 unfavorable, respectively. During the year ended December 31, 2019, the Company increased case reserves for a significant number of older liability claims, which primarily affected the ultimate loss projections for commercial lines business. This was in response to management's detailed review of open liability claims that resulted in new assessments of 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.

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

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

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

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

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

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

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

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

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

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

In New York State, lawsuits for negligence are subject to certain limitations and must be commenced within three years from the date of the accident or are otherwise barred. Accordingly, the Company’s exposure to unreported claims (“pure” IBNR) for accident dates of December 31, 2016 and prior is limited, although there remains the possibility of adverse development on reported claims (“case development” IBNR). In certain rare circumstances states have retroactively revised a statute of limitations. The Company is not aware of any such effort that would have a material impact on the Company’s results.

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

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

Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance											As of	
For the Years Ended December 31,											December 31, 2019	
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	IBNR	Cumulative Number of Reported Claims by Accident Year
(Unaudited 2010 - 2018)												
2010	\$ 5,598	\$ 5,707	\$ 6,429	\$ 6,623	\$ 6,912	\$ 6,853	\$ 6,838	\$ 6,840	\$ 6,787	\$ 6,788	\$ (4)	1,617
2011		7,603	7,678	8,618	9,440	9,198	9,066	9,144	9,171	9,127	(2)	1,914
2012			9,539	9,344	10,278	10,382	10,582	10,790	10,791	11,015	77	4,704 ⁽¹⁾
2013				10,728	9,745	9,424	9,621	10,061	10,089	10,607	98	1,561
2014					14,193	14,260	14,218	14,564	15,023	16,381	249	2,134
2015						22,340	21,994	22,148	22,491	23,386	228	2,555
2016							26,062	24,941	24,789	27,887	414	2,875
2017								31,605	32,169	35,304	847	3,375
2018									54,455	56,351	2,771	4,178
2019										75,092	19,458	4,225
Total										\$ 271,938		

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

All Lines of Business
(in thousands)

Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance										
For the Years Ended December 31,										
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
(Unaudited 2010 - 2018)										
2010	\$ 2,566	\$ 3,947	\$ 4,972	\$ 5,602	\$ 6,323	\$ 6,576	\$ 6,720	\$ 6,772	\$ 6,780	\$ 6,785
2011		3,740	5,117	6,228	7,170	8,139	8,540	8,702	8,727	8,789
2012			3,950	5,770	7,127	8,196	9,187	10,236	10,323	10,428
2013				3,405	5,303	6,633	7,591	8,407	9,056	9,717
2014					5,710	9,429	10,738	11,770	13,819	14,901
2015						12,295	16,181	18,266	19,984	21,067
2016							15,364	19,001	21,106	23,974
2017								16,704	24,820	28,693
2018									32,383	44,516
2019										40,933
Total										\$ 209,803
Net liability for unpaid loss and allocated loss adjustment expenses for the accident years presented										\$ 62,135
										98
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance										<u>\$ 62,233</u>

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

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

<i>(in thousands)</i>	As of December 31, 2019
Liabilities for loss and loss adjustment expenses, net of reinsurance	\$ 62,233
Total reinsurance recoverable on unpaid losses	15,728
Unallocated loss adjustment expenses	2,538
Total gross liability for loss and LAE reserves	<u>\$ 80,499</u>

The following is supplementary unaudited information about average historical claims duration as of December 31, 2019:

Average Annual Percentage Payout of Incurred Loss and Allocated Loss Adjustment Expenses by Age, Net of Reinsurance (unaudited)

Years	1	2	3	4	5	6	7	8	9	10
All Lines of Business	44.9%	18.5%	10.9%	8.9%	9.2%	6.1%	2.7%	0.7%	0.4%	0.1%

The percentages in the above table do not add up to 100% because the percentages represent averages across all accident years at each development stage.

Note 12 – Stockholders’ Equity

Dividends Declared

Dividends declared and paid on Common Stock were \$3,501,366 and \$4,279,494 for the years ended December 31, 2019 and 2018, respectively. The Company’s Board of Directors approved a quarterly dividend on February 6, 2020 of \$.0625 per share payable in cash on March 13, 2020 to stockholders of record as of February 28, 2020 (see Note 19 - Subsequent Events).

Stock Options

Pursuant to the Company’s 2005 Equity Participation Plan (the “2005 Plan”), which provides for the issuance of incentive stock options, non-statutory stock options and restricted stock, a maximum of 700,000 shares of the Company’s Common Stock are permitted to be issued pursuant to options granted and restricted stock issued. Effective August 12, 2014, the Company adopted the 2014 Equity Participation Plan (the “2014 Plan”) pursuant to which, a maximum of 700,000 shares of Common Stock of the Company are authorized to be issued pursuant to the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock and stock bonuses. Incentive stock options granted under the 2014 Plan and 2005 Plan expire no later than ten years from the date of grant (except no later than five years for a grant to a 10% stockholder). The Board of Directors or the Compensation Committee determines the expiration date with respect to non-statutory stock options and the vesting provisions for restricted stock granted under the 2014 Plan and 2005 Plan. During the year ended December 31, 2018, the remaining options outstanding under the 2005 Plan were exercised and as of December 31, 2018, there were no options outstanding under the 2005 Plan.

The results of operations for the years ended December 31, 2019 and 2018 include stock-based compensation expense for stock options totaling approximately \$30,000 and \$6,000, respectively. Stock-based compensation expense related to stock options is net of estimated forfeitures of approximately 17% for the years ended December 31, 2019 and 2018. Such amounts have been included in the consolidated statements of operations and comprehensive income (loss) within other operating expenses.

The weighted average estimated fair value of stock options granted during the year ended December 31, 2019 was \$1.91 per share. No options were granted during the year ended December 31, 2018. The fair value of stock options at the grant date was estimated using the Black-Scholes option-pricing model.

The following weighted average assumptions were used for grants during the following periods:

	Years ended	
	December 31,	
	2019	2018
Dividend Yield	2.87%	n/a
Volatility	36.11%	n/a
Risk-Free Interest Rate	1.61%	n/a
Expected Life	3.25 years	n/a

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 year ended December 31, 2019 is as follows:

Stock Options	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2019	37,500	\$ 8.36	2.24	\$ 349,950
Granted	50,000	\$ 8.72		\$ -
Exercised	(3,000)	\$ 7.85		\$ 6,270
Forfeited	(2,500)	\$ 7.85	2.04	\$ 13,588
Outstanding at December 31, 2019	82,000	\$ 8.61	3.38	\$ -
Vested and Exercisable at December 31, 2019	50,000	\$ 8.45	2.12	\$ -

The aggregate intrinsic value of options outstanding and options exercisable at December 31, 2019 is calculated as the difference between the exercise price of the underlying options and the market price of the Company's Common Stock for the options that had exercise prices that were lower than the \$7.75 closing price of the Company's Common Stock on December 31, 2019. The total intrinsic value of options exercised during the year ended December 31, 2019 was \$6,270, determined as of the date of exercise.

Participants in the 2014 Plans may exercise their outstanding vested options, in whole or in part, by having the Company reduce the number of shares otherwise issuable by a number of shares having a fair market value equal to the exercise price of the option being exercised ("Net Exercise"), or by exchanging a number of shares owned for a period of greater than one year having a fair market value equal to the exercise price of the option being exercised ("Share Exchange"). The Company received cash proceeds of \$23,550 from the exercise of options for the purchase of 3,000 shares of common stock during the year ended December 31, 2019. The Company received cash proceeds of \$90,640 from the exercise of options for the purchase of 15,250 shares of common stock during the year ended December 31, 2018. The Company received 7,855 shares from the exercise of options under a Share Exchange for the purchase of 30,000 shares of common stock during the year ended December 31, 2018. The remaining 258,400 options exercised during the year ended December 31, 2018 were Net Exercises, resulting in the issuance of 94,647 shares of common stock.

As of December 31, 2019, the estimated fair value of unamortized compensation cost related to unvested stock option awards was approximately \$59,000. Unamortized compensation cost as of December 31, 2019 is expected to be recognized over a remaining weighted-average vesting period of 1.74 years.

As of December 31, 2019, there were 327,900 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 year ended December 31, 2019 is as follows:

Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value per Share	Aggregate Fair Value
Balance at January 1, 2019	120,499	\$ 17.66	\$ 2,129,175
Granted	120,586	\$ 15.51	\$ 1,870,487
Vested	(15,440)	\$ 17.04	\$ (263,071)
Forfeited	(11,716)	\$ 15.57	\$ (182,417)
Balance at December 31, 2019	213,929	\$ 16.51	\$ 3,554,174

Fair value was calculated using the closing price of the Company's Common Stock on the grant date. Stock-based compensation expense in 2019 and 2018 includes the estimated fair value of restricted Common Stock granted, amortized on a straight-line basis over the requisite service period. For the years ended December 31, 2019 and 2018, stock-based compensation for these grants was approximately \$1,471,500 and \$697,000, respectively, which is included in other operating expenses on the accompanying consolidated statements of operations and comprehensive income (loss). These amounts reflect the Company's accounting expense and do not correspond to the actual value that will be recognized by the directors, executives and employees.

Note 13 - Statutory Financial Information and Accounting Policies

For regulatory purposes, KICO prepares its statutory basis financial based on statutory accounting principles prescribed or permitted by the New York State Department of Financial Services (the "DFS"). The DFS requires insurance companies domiciled in New York State to prepare their statutory financial statements in accordance with Statements of Statutory Accounting Principles as promulgated by the National Association of Insurance Commissioners (the "NAIC"), subject to any deviations prescribed or permitted by the DFS. These statutory accounting practices differ substantially from GAAP used by most business entities. The more significant variances from GAAP are as follows:

- Policy acquisition costs are charged to operations in the year such costs are incurred, rather than being deferred and amortized as premiums are earned over the terms of the policies.
- Ceding commission revenues are earned when ceded premiums are written except for ceding commission revenues in excess of anticipated acquisition costs, which are deferred and amortized as ceded premiums are earned. GAAP requires that all ceding commission revenues be earned as the underlying ceded premiums are earned over the term of the reinsurance agreements.
- Certain assets including certain receivables, a portion of the net deferred tax asset, prepaid expenses and furniture and equipment are not admitted.
- Investments in fixed-maturity securities are valued at NAIC value for statutory financial purposes, which is primarily amortized cost. GAAP requires certain investments in fixed-maturity securities classified as available-for-sale, to be reported at fair value.
- Certain amounts related to ceded reinsurance are reported on a net basis within the statutory basis financial statements. GAAP requires these amounts to be shown gross.
- For SAP purposes, changes in deferred income taxes relating to temporary differences between net income for financial reporting purposes and taxable income are recognized as a separate component of gains and losses in surplus rather than included in income tax expense or benefit as required under GAAP.

State insurance laws restrict the ability of KICO to declare dividends. These restrictions are related to surplus and net investment income. Dividends are restricted to the lesser of 10% of surplus or 100% of investment income (on a statutory accounting basis) for the trailing 36 months, net of dividends paid by KICO during such period. State insurance regulators require insurance companies to maintain specified levels of statutory capital and surplus. Generally, dividends may only be paid out of unassigned surplus, and the amount of an insurer's unassigned surplus following payment of any dividends must be reasonable in relation to the insurer's outstanding liabilities and adequate to meet its financial needs. For the years ended December 31, 2019 and 2018, KICO paid dividends to Kingstone of \$7,000,000 and \$3,600,000, respectively. On February 19, 2020, KICO's Board of Directors approved a cash dividend of \$1,500,000 to Kingstone, which was paid on February 20, 2020. For the years ended December 31, 2019 and 2018, KICO recorded statutory basis net income (loss) of \$(4,519,183) and \$3,801,498, respectively. At December 31, 2019 and 2018, KICO reported statutory basis surplus as regards policyholders of \$93,844,197 and \$98,745,944, respectively, as filed with the DFS.

Statutory Surplus

In December 2019, the Company made a surplus contribution of \$3,256,335 to KICO. See Note 9 – Debt for further detail regarding this contribution.

Note 14 - Risk Based Capital

State insurance departments impose risk-based capital (“RBC”) requirements on insurance enterprises. The RBC Model serves as a benchmark for the regulation of insurance companies by state insurance regulators. RBC provides for targeted surplus levels based on formulas, which specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk, and are set forth in the RBC requirements. Such formulas focus on four general types of risk: (a) the risk with respect to the company’s assets (asset or default risk); (b) the risk of default on amounts due from reinsurers, policyholders, or other creditors (credit risk); (c) the risk of underestimating liabilities from business already written or inadequately pricing business to be written in the coming year (underwriting risk); and, (d) the risk associated with items such as excessive premium growth, contingent liabilities, and other items not reflected on the balance sheet (off-balance sheet risk). The amount determined under such formulas is called the authorized control level RBC (“ACL”).

The RBC guidelines define specific capital levels based on a company’s ACL that are determined by the ratio of the company’s total adjusted capital (“TAC”) to its ACL. TAC is equal to statutory capital, plus or minus certain other specified adjustments. The Company’s TAC was above the ACL for each of the last two years and is in compliance with RBC requirements as of December 31, 2019 and 2018.

Note 15 – 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.

The provision for income taxes is comprised of the following:

<i>Years ended December 31,</i>	2019	2018
Current federal income tax expense (benefit)	\$ 174,779	\$ (74,001)
Current state income tax expense (benefit)	238	(6,784)
Deferred federal and state income tax benefit	(1,991,208)	(5,398)
Income tax benefit	<u>\$ (1,816,191)</u>	<u>\$ (86,183)</u>

A reconciliation of the federal statutory rate to the Company's effective tax rate is as follows:

<i>Years ended December 31,</i>	2019		2018	
Computed expected tax (benefit) expense	\$ (1,634,334)	21.0%	\$ 631,483	21.0%
State taxes, net of federal benefit	(247,909)	3.2	(377,884)	(12.6)
State valuation allowance	261,573	(3.4)	390,976	13.0
Permanent differences				
Dividends received deduction	(97,631)	1.3	(85,703)	(2.9)
Non-taxable investment income	(39,901)	0.5	(40,861)	(1.4)
Excess benefit from stock-based compensation	184	-	(569,459)	(18.9)
Stock-based compensation	80,453	(1.0)	(16,960)	(0.5)
Other permanent differences	(15,961)	0.2	42,496	1.4
Prior year tax matters	(91,748)	1.2	(61,415)	(2.0)
Other	(30,917)	0.3	1,144	-
Income tax benefit, as reported	<u>\$ (1,816,191)</u>	<u>23.3%</u>	<u>\$ (86,183)</u>	<u>(2.9)%</u>

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:

	December 31,	December 31,
	2019	2018
Deferred tax asset:		
Net operating loss carryovers (1)	\$ 1,586,247	\$ 90,438
Claims reserve discount	839,959	343,905
Unearned premium	3,105,344	3,145,682
Deferred ceding commission revenue	1,624,434	564,202
Other	462,019	383,733
Total deferred tax assets	<u>7,618,003</u>	<u>4,527,960</u>
Deferred tax liability:		
Investment in KICO (2)	759,543	759,543
Deferred acquisition costs	4,333,219	3,760,625
Intangibles	105,000	140,700
Depreciation and amortization	312,298	664,194
Net unrealized gains (losses) of securities - available-for-sale	1,796,891	(1,151,335)
Total deferred tax liabilities	<u>7,306,951</u>	<u>4,173,727</u>
Net deferred income tax asset	<u>\$ 311,052</u>	<u>\$ 354,233</u>

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

Type of NOL	December 31, 2019	December 31, 2018	Expiration
Federal only, current year	\$ 1,517,866	\$ -	None
Amount subject to Annual Limitation, federal only	-	2,100	December 31, 2019
Total federal only	1,517,866	2,100	
State only (A)	1,616,568	1,305,365	December 31, 2039
Valuation allowance	(1,548,187)	(1,217,027)	
State only, net of valuation allowance	68,381	88,338	
Total deferred tax asset from net operating loss carryovers	\$ 1,586,247	\$ 90,438	

(A) Kingstone generates operating losses for state purposes and has prior year NOLs available. The state NOL as of December 31, 2019 and 2018 was approximately \$24,901,000 and \$20,083,000, 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 income (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 2039.

(2) Deferred tax liability - investment in KICO

On July 1, 2009, the Company completed the acquisition of 100% of the issued and outstanding common stock of KICO (formerly known as Commercial Mutual Insurance Company ("CMIC")) pursuant to the conversion of CMIC from an advance premium cooperative insurance company 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 (collectively the "Untaxed Interest"). As of the date of acquisition, the deferred tax liability on the Untaxed Interest was \$1,169,000. Under GAAP guidance for business combinations, a temporary difference with an indefinite life exists when the parent company 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.

The table below reconciles the changes in net deferred income tax assets (liabilities) to the deferred income tax provision for the year ended December 31, 2019:

Change in net deferred income tax assets	\$ 43,181
Deferred tax expense allocated to other comprehensive (loss) income	(2,034,389)
Deferred income tax benefit	\$ (1,991,208)

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 years ended December 31, 2019 and 2018. If any had been recognized these would have been reported in income tax expense.

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

Note 16 - Employee Benefit Plans

Employee Profit Sharing Plan

The Company maintained a discretionary employee profit sharing plan (the "Profit Sharing Plan") available to full-time employees who were employed as of December 31. For the year ended December 31, 2018, the Profit Sharing Plan called for a bonus to be paid based on a formula that was tied to the annual GAAP combined ratio ("Combined Ratio"). The maximum the bonus could be was 25% of eligible wages at a Combined Ratio of 70%. The bonus decreased by 1% for each percentage point increase in the Combined Ratio. There was a minimum bonus of 5% at a Combined Ratio of 90% and above. The bonus was allocated 35% to the employees' 401(k) account and 65% as cash through payroll. The Company incurred approximately \$445,000 of expense for the year ended December 31, 2018, related to the Profit Sharing Plan, which was recorded in other operating expenses on the accompanying consolidated statements of operations and comprehensive income (loss). For the year ended December 31, 2019, the Company maintained a new discretionary employee bonus plan, which is discussed below.

Employee Bonus Plan

In November 2018, the Company's Board of Directors approved a new discretionary employee bonus plan ("Bonus Plan") to replace the existing Profit Sharing Plan to be effective as of January 1, 2019. Eligible employees can receive a target bonus rate of between 12% and 30% of base salary depending on their position. The target bonus rate is subject to adjustment depending on annual performance evaluation scores. The Bonus Plan is funded through a point system whereby up to 60 points are funded by a target return on investment ("Target ROE") sliding scale and up to 40 points are funded by achieving various annual corporate goals as approved in advance by the Company's Board of Directors. A maximum of 60 points can be achieved with a Target ROE of 14%. The bonus is decreased by six points for each percentage point decrease in Target ROE. The minimum of six points can be achieved with Target ROE of 5%. The Company incurred approximately \$457,000 of expense for the year ended December 31, 2019, related to the Bonus Plan related to achieving certain annual corporate goals, which is recorded in other operating expenses on the accompanying consolidated statements of operations and comprehensive income (loss).

401(k) Plan

The Company maintains a salary reduction plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan") for its qualified employees. The Company matches 100% of each participant's contribution up to 4% of the participant's eligible contribution. The Company incurred approximately \$305,000 and \$247,000 of expense for the years ended December 31, 2019 and 2018, respectively, related to the 401(k) Plan, which is recorded in other operating expenses on the accompanying consolidated statements of operations and comprehensive income (loss).

Deferred Compensation Plan

On June 18, 2018, the Company adopted the Kingstone Companies, Inc. Deferred Compensation Plan (the "Deferred Compensation Plan"). The Deferred Compensation Plan is offered to a select group ("Participants"), consisting of management and highly compensated employees as a method of recognizing and retaining such Participants. The Deferred Compensation Plan provides for eligible Participants to elect to defer up to 75% of their base compensation and up to 100% of bonuses and other compensation and to have such deferred amounts deemed to be invested in specified investment options. In addition to the Participant deferrals, the Company may choose to make matching contributions to some or all of the Participants in the Deferred Compensation Plan to the extent the Participant did not receive the maximum matching or non-elective contributions permissible under the Company's 401(k) Plan due to limitations under the Internal Revenue Code or the 401(k) Plan. Participants may elect to receive payment of their account balances in a single cash payment or in annual installments for a period of up to ten years. The first payroll subject to the Deferred Compensation Plan was in July 2018. The deferred compensation liability as of December 31, 2019 and 2018 amounted to \$599,274 and \$298,638, respectively, and is recorded in accounts payable, accrued expenses and other liabilities in the accompanying consolidated balance sheets. The Company made voluntary contributions of \$5,399 and \$24,957 for the years ended December 31, 2019 and 2018, respectively, which are recorded in other operating expenses in the accompanying consolidated statements of operations and comprehensive income (loss).

Note 17 - Commitments and Contingencies

Litigation

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

On June 12, 2019, Phillip Woolgar filed a suit naming the Company and certain present or former officers and directors as defendants in a putative class action captioned *Woolgar v. Kingstone Companies et al.*, 19 cv 05500 (S.D.N.Y.), asserting claims under Section 10(b) of the Exchange Act and SEC Rule 10b-5 promulgated thereunder and Section 20(a) of the Exchange Act. Plaintiff seeks to represent a class of persons or entities that purchased Kingstone securities between March 14, 2018, and April 29, 2019, and alleges violations of the federal securities law in connection with the Company's April 29, 2019 announcement regarding losses related to winter catastrophe events. The lawsuit alleges that the Company failed to disclose that it did not adequately follow industry best practices related to claims handling and thus did not record sufficient claim reserves, and that as a result, Defendants' positive statements about the Company's business, operations and prospects misled investors. Plaintiff seeks, among other things, an undetermined amount of money damages. The Company believes the lawsuit to be without merit. The Company has not established an accrual for this matter as a loss is not considered to be probable and reasonably estimable. It is the opinion of management that facts known at the present time do not indicate that such litigation will have a material adverse impact on the Company's results of operations, financial position, or cash flows. On February 18, 2020, a motion to dismiss was filed with the court.

Office Leases

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

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

On July 8, 2019, the Company entered into a lease agreement for an additional office facility for Cosi located in Valley Stream, New York under a non-cancelable operating lease. In addition to the base rental costs, occupancy lease agreements generally provide for rent escalations resulting from increased assessments from real estate taxes and other charges. The lease 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:

	Year ended December 31, 2019
Lease cost	
Operating leases	\$ 165,368
Short-term leases	-
Total lease cost (1) (2)	<u>\$ 165,368</u>
Other information on operating leases	
Cash payments included in the measurement of lease liability reported in operating cash flows (2)	\$ 169,861
Discount rate	5.50%
Weighted average remaining lease term in years	5.88 year

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

(2) Amount only contains lease cost for the Company's KICO lease, Cosi lease payments are due and payable January 2020.

The following table presents the contractual maturities of the Company's lease liabilities as of December 31, 2019:

	For the Year Ending December 31,	Total
2020		255,624
2021		264,571
2022		273,831
2023		283,415
2024		140,738
Thereafter		192,916
Total undiscounted lease payments		1,411,095
Less: present value adjustment		230,154
Operating lease liability		<u>\$ 1,180,941</u>

Rent expense for the years ended December 31, 2019 and 2018 amounted to \$165,368 for each period and is included in the accompanying consolidated statements of operations and comprehensive income (loss) within other underwriting expenses.

Employment Agreements

Dale A. Thatcher

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

In connection with his separation from employment, each of the Company and KICO entered into an Agreement and General Release (the "Separation Agreement") with Mr. Thatcher. Pursuant to the Separation Agreement, the Company and KICO shall collectively provide the following payments and benefits to Mr. Thatcher in full satisfaction of all payments and benefits and other amounts due to him under the terms of the existing employment agreements upon his separation from employment: (i) \$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 (Mr. Thatcher shall not be entitled to any further grants of stock awards after the Separation Date). In addition, the Company and KICO agreed to provide Mr. Thatcher with a severance payment of \$20,000 in consideration for a release. 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.

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

Pursuant to the Amended Employment Agreement, Mr. Goldstein is entitled to receive an annual base salary of \$500,000 and an annual bonus equal to 6% of the Company's consolidated income from operations before taxes, exclusive of the Company's consolidated net investment income (loss), net unrealized gains (losses) on equity securities and net realized gains (losses) on investments, up to a maximum of 2.5 times his base salary. In addition, pursuant to the Amended Employment Agreement, Mr. Goldstein is entitled to receive a long-term compensation ("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, Mr. Goldstein is entitled to receive a grant, under the terms of the Company's 2014 Plan, during January 2020, of a number of shares of restricted stock determined by dividing \$1,250,000 by the fair market value of the Company's Common Stock on the date of grant. On January 3, 2020, Mr. Goldstein was granted 157,431 shares of restricted stock pursuant to this provision. The January 2020 grant will become vested with respect to one-third of the award on each of the first and second anniversaries of the grant date and on December 31, 2022 based on the continued provision of services through the applicable vesting date. Also pursuant to the Amended Employment Agreement, Mr. Goldstein will be entitled to receive a grant, under the terms of the 2014 Plan, during January 2021, of a number of shares of restricted stock determined by dividing \$1,500,000 by the fair market value of the Company's Common Stock on the date of grant. The January 2021 grant will become vested with respect to one-half of the award on each of the first anniversary of the grant date and on December 31, 2022 based on the continued provision of services through the applicable vesting date. Further, pursuant to the Amended Employment Agreement, Mr. Goldstein will be entitled to receive a grant, under the terms of the 2014 Plan, during each of 2020, 2021 and 2022, of a number of shares of restricted stock determined by dividing \$136,500 by the fair market value of the Company's Common Stock on the date of grant. On January 3, 2020, Mr. Goldstein was granted 17,191 shares of restricted stock pursuant to this provision. The 2020 grant will become vested with respect to one-third of the award on each of the first and second anniversaries of the grant date and on December 31, 2022 based on the continued provision of services through the applicable vesting date. The 2021 grant will become vested with respect to one-half of the award on each of the first anniversary of the grant date and on December 31, 2022 based on the continued provision of services through the applicable vesting date. The 2022 grant will become vested on December 31, 2022 based on the continued provision of services through such date.

Meryl Golden, Chief Operating Officer

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

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

Note 18 - Earnings Per Common Share

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

The computation of diluted earnings (loss) per common share excludes outstanding options in periods where the exercise of such options would be anti-dilutive. For the year ended December 31, 2019, no options were included in the computation of diluted earnings (loss) per common share as they would have been anti-dilutive for the relevant period and, as a result, the weighted average number of common shares used in the calculation of diluted earnings per common share for the year ended December 31, 2019 has not been adjusted for the effect of such options.

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

	Years ended December 31,	
	2019	2018
Weighted average number of shares outstanding	10,773,623	10,686,813
Stock options	-	19,823
Restricted stock awards	-	10,250
Weighted average number of shares outstanding, used for computing diluted earnings per share	<u>10,773,623</u>	<u>10,716,886</u>

Note 19 - Subsequent Events

The Company has evaluated events that occurred subsequent to December 31, 2019 through March 16, 2020, the date these consolidated financial statements were issued for matters that required disclosure or adjustment in these consolidated financial statements.

Dividends Declared and Paid

On February 6, 2020, the Company's Board of Directors approved a quarterly dividend of \$0.0625 per share payable in cash on March 13, 2020 to stockholders of record as of the close of business on February 28, 2020 (see Note 12).

Restricted Stock Awards

Pursuant to the terms of the Amended Employment Agreement between the Company and Mr. Goldstein, on January 3, 2020, he was granted 157,431 shares of restricted stock valued at \$1,250,000 and 17,191 shares of restricted stock valued at \$136,500 (see Note 17).

Note 20 – Quarterly Financial Data (Unaudited)

The following is a summary of unaudited quarterly results of operations for the years ended December 31, 2019 and 2018:

	2019				Total
	March 31,	June 30,	September 30,	December 31,	
Net premiums earned	\$ 29,595,889	\$ 31,201,279	\$ 34,220,010	\$ 32,606,264	\$127,623,442
Ceding commission revenue	1,277,683	675,695	1,029,582	1,667,891	4,650,851
Net investment income	1,623,712	1,719,769	1,856,553	1,669,312	6,869,346
Net gains on investments	2,035,363	678,655	998,162	878,839	4,591,019
Total revenues	34,898,548	34,605,370	38,600,003	37,459,099	145,563,020
Loss and loss adjustment expenses	29,134,224	17,672,308	24,781,318	18,594,474	90,182,324
Commission expense and other underwriting expenses	12,989,407	12,715,622	14,210,078	14,698,276	54,613,383
Net income (loss)	(7,335,190)	1,639,380	(1,725,162)	1,454,619	(5,966,353)
Basic earnings (loss) per share	\$ (0.68)	\$ 0.15	\$ (0.16)	\$ 0.13	\$ (0.55)
Diluted earnings (loss) per share	\$ (0.68)	\$ 0.15	\$ (0.16)	\$ 0.13	\$ (0.55)

	2018				Total
	March 31,	June 30,	September 30,	December 31,	
Net premiums earned	\$ 22,837,617	\$ 24,104,614	\$ 27,533,907	\$ 28,938,577	\$103,414,715
Ceding commission revenue	1,695,158	1,691,168	1,044,529	901,775	5,332,630
Net investment income	1,383,989	1,556,866	1,602,371	1,643,022	6,186,248
Net realized gain (loss) on investments	(523,127)	(106,733)	352,025	(2,218,022)	(2,495,857)
Total revenues	25,701,870	27,546,186	30,885,909	29,637,933	113,771,898
Loss and loss adjustment expenses	17,266,330	11,176,085	13,296,708	16,556,082	58,295,205
Commission expense and other underwriting expenses	10,831,451	11,093,175	11,788,002	12,572,851	46,285,479
Net income (loss)	(2,717,934)	2,757,297	3,933,730	(879,847)	3,093,246
Basic earnings per share	\$ (0.28)	\$ 0.26	\$ 0.37	\$ (0.08)	\$ 0.29
Diluted earnings per share	\$ (0.28)	\$ 0.25	\$ 0.36	\$ (0.08)	\$ 0.29

Due to changes in number of shares outstanding from quarter to quarter, the total earnings per share of the four quarters may not necessarily equal the total earnings per share for the year.

STOCK GRANT AGREEMENT made as of the 3rd day of January, 2020 between **KINGSTONE COMPANIES, INC.**, a Delaware corporation (the “Company”), and **BARRY B. GOLDSTEIN** (the “Grantee”).

WHEREAS, the Grantee is the Chief Executive Officer and President of the Company;

WHEREAS, the Company and the Grantee are parties to a Second Amended and Restated Employment Agreement dated as of October 14, 2019 (the “Employment Agreement”);

WHEREAS, pursuant to the Employment Agreement, the Compensation Committee of the Board of Directors of the Company has approved the grant to the Grantee of common stock of the Company (“Common Stock”) pursuant to the Company’s 2014 Equity Participation Plan (the “Plan”).

NOW, THEREFORE, in consideration of the foregoing, the Company hereby grants to the Grantee an award of shares of Common Stock upon the following terms and conditions:

1. **DEFINED TERMS.** All terms used, but not otherwise defined, herein shall have the meanings ascribed to them in the Plan or the Employment Agreement.
 2. **GRANT.** Subject to the terms and conditions of the Plan and the provisions hereof, the Company hereby agrees to grant to the Grantee, pursuant to Section 16 of the Plan, an award of One Hundred Fifty-Seven Thousand Four Hundred Thirty-One (157,431) shares of Common Stock (the “Shares”), such Shares being issuable on the Vesting Dates (as hereinafter defined) set forth in, and subject to the provisions of, Section 3 hereof.
 3. **VESTING OF SHARES.** (a) The Shares shall vest on the respective Vesting Dates set forth below, provided that the Grantee continues to serve as an employee, director or consultant of the Company as of the applicable Vesting Date (or sooner as provided for in paragraph (c) hereof):
 - (i) Fifty-Two Thousand Four Hundred Seventy-Seven (52,477) of the Shares on the first anniversary of the date hereof (the “First Vesting Date”);
 - (ii) Fifty-Two Thousand Four Hundred Seventy-Seven (52,477) of the Shares on the second anniversary of the date hereof (the “Second Vesting Date”); and
 - (iii) Fifty-Two Thousand Four Hundred Seventy-Seven (52,477) of the Shares on December 31, 2022 (the “Third Vesting Date”); each of the First Vesting Date, the Second Vesting Date and the Third Vesting Date is referred to hereinafter as a “Vesting Date”.
 - (b) In the event that the Grantee does not continue to serve as an employee, director or consultant of the Company as of a particular Vesting Date as a result of the termination of the Grantee’s employment for Cause or the Grantee’s resignation (other than for Good Reason), the Grantee shall not be entitled to receive any of the Shares issuable on such Vesting Date or thereafter, and this Agreement shall terminate and be of no further force or effect.
 - (c) In the event that, prior to a particular Vesting Date (i) the Grantee’s employment with the Company is terminated other than for Cause, (ii) the Grantee’s employment with the Company is terminated as a result of the Grantee having become Disabled, (iii) the Grantee dies while an employee of the Company, or (iv) the Grantee resigns his employment with the Company for Good Reason, the Shares that were scheduled to vest on such Vesting Date and thereafter shall instead vest on the date of termination of employment, the date of death or the date of resignation of employment, as the case may be (the “Termination Date”).
 - (d) In the event that Shares vest on a Vesting Date or the Termination Date, as the case may be, the certificate representing the portion of the Shares then vested shall be issued by the Company as soon as reasonably practicable thereafter.
 - (e) The number of Shares issuable to the Grantee is subject to adjustment for any stock splits, reverse stock splits and other recapitalizations that take effect prior to a particular Vesting Date or the Termination Date, as the case may be.
-

4. **INCORPORATION BY REFERENCE.** The terms and conditions of the Plan are hereby incorporated by reference and made a part hereof.
5. **NOTICES.** Any notice or other communication given hereunder shall be deemed sufficient if in writing and hand delivered or sent by registered or certified mail, return receipt requested, addressed to the Company, 15 Joys Lane, Kingston, New York 12401, Attention: Chief Financial Officer and to the Grantee at the address indicated below, or, in each case, at such other address notice of which is given in accordance with the foregoing provisions. Notices shall be deemed to have been given on the date of hand delivery or mailing as provided for above, except notices of change of address, which shall be deemed to have been given when received.
6. **BINDING EFFECT.** This Stock Grant Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective legal representatives, successors and assigns.
7. **ENTIRE AGREEMENT.** This Stock Grant Agreement, together with the Plan, contains the entire understanding of the parties hereto with respect to the subject matter hereof and may be modified only by an instrument executed by the party sought to be charged.
8. **GOVERNING LAW.** This Stock Grant Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, excluding choice of law rules thereof.
9. **EXECUTION IN COUNTERPARTS.** This Stock Grant Agreement may be executed in counterparts, each of which shall be deemed to be an original, but both of which together shall constitute one and the same instrument.
10. **SIGNATURES.** Signatures hereon which are transmitted via facsimile, or other electronic image, shall be deemed original signatures.
11. **INTERPRETATION; HEADINGS.** The provisions of this Stock Grant Agreement shall be interpreted in a reasonable manner to give effect to the intent of the parties hereto. The headings and captions under sections and paragraphs of this Stock Grant Agreement are for convenience of reference only and do not in any way modify, interpret or construe the intent of the parties or affect any of the provisions of this Stock Grant Agreement.

[Remainder of page intentionally left blank; signature page follows]

IN WITNESS WHEREOF, the parties have executed this Stock Grant Agreement as of the day and year first above written.

KINGSTONE COMPANIES, INC.

By: /s/ Victor Brodsky

Victor Brodsky
Chief Financial Officer

/s/ Barry B. Goldstein

Signature of Grantee

Barry B. Goldstein

Name of Grantee

Address of Grantee

STOCK GRANT AGREEMENT made as of the 3rd day of January, 2020 between **KINGSTONE COMPANIES, INC.**, a Delaware corporation (the "Company"), and **BARRY B. GOLDSTEIN** (the "Grantee").

WHEREAS, the Grantee is the Chief Executive Officer and President of the Company;

WHEREAS, the Company and the Grantee are parties to a Second Amended and Restated Employment Agreement dated as of October 14, 2019 (the "Employment Agreement");

WHEREAS, pursuant to the Employment Agreement, the Compensation Committee of the Board of Directors of the Company has approved the grant to the Grantee of common stock of the Company ("Common Stock") pursuant to the Company's 2014 Equity Participation Plan (the "Plan").

NOW, THEREFORE, in consideration of the foregoing, the Company hereby grants to the Grantee an award of shares of Common Stock upon the following terms and conditions:

1. **DEFINED TERMS.** All terms used, but not otherwise defined, herein shall have the meanings ascribed to them in the Plan or the Employment Agreement.
 2. **GRANT.** Subject to the terms and conditions of the Plan and the provisions hereof, the Company hereby agrees to grant to the Grantee, pursuant to Section 16 of the Plan, an award of Seventeen Thousand One Hundred Ninety-One (17,191) shares of Common Stock (the "Shares"), such Shares being issuable on the Vesting Dates (as hereinafter defined) set forth in, and subject to the provisions of, Section 3 hereof.
 3. **VESTING OF SHARES.** (a) The Shares shall vest on the respective Vesting Dates set forth below, provided that the Grantee continues to serve as an employee, director or consultant of the Company as of the applicable Vesting Date (or sooner as provided for in paragraph (c) hereof):
 - (i) Five Thousand Seven Hundred Thirty-One (5,731) of the Shares on the first anniversary of the date hereof (the "First Vesting Date");
 - (ii) Five Thousand Seven Hundred Thirty (5,730) of the Shares on the second anniversary of the date hereof (the "Second Vesting Date"); and
 - (iii) Five Thousand Seven Hundred Thirty (5,730) of the Shares on December 31, 2022 (the "Third Vesting Date"); each of the First Vesting Date, the Second Vesting Date and the Third Vesting Date is referred to hereinafter as a "Vesting Date".
 - (b) In the event that the Grantee does not continue to serve as an employee, director or consultant of the Company as of a particular Vesting Date as a result of the termination of the Grantee's employment for Cause or the Grantee's resignation (other than for Good Reason), the Grantee shall not be entitled to receive any of the Shares issuable on such Vesting Date or thereafter, and this Agreement shall terminate and be of no further force or effect.
 - (c) In the event that, prior to a particular Vesting Date (i) the Grantee's employment with the Company is terminated other than for Cause, (ii) the Grantee's employment with the Company is terminated as a result of the Grantee having become Disabled, (iii) the Grantee dies while an employee of the Company, or (iv) the Grantee resigns his employment with the Company for Good Reason, the Shares that were scheduled to vest on such Vesting Date and thereafter shall instead vest on the date of termination of employment, the date of death or the date of resignation of employment, as the case may be (the "Termination Date").
 - (d) In the event that Shares vest on a Vesting Date or the Termination Date, as the case may be, the certificate representing the portion of the Shares then vested shall be issued by the Company as soon as reasonably practicable thereafter.
 - (e) The number of Shares issuable to the Grantee is subject to adjustment for any stock splits, reverse stock splits and other recapitalizations that take effect prior to a particular Vesting Date or the Termination Date, as the case may be.
-

4. **INCORPORATION BY REFERENCE.** The terms and conditions of the Plan are hereby incorporated by reference and made a part hereof.
5. **NOTICES.** Any notice or other communication given hereunder shall be deemed sufficient if in writing and hand delivered or sent by registered or certified mail, return receipt requested, addressed to the Company, 15 Joys Lane, Kingston, New York 12401, Attention: Chief Financial Officer and to the Grantee at the address indicated below, or, in each case, at such other address notice of which is given in accordance with the foregoing provisions. Notices shall be deemed to have been given on the date of hand delivery or mailing as provided for above, except notices of change of address, which shall be deemed to have been given when received.
6. **BINDING EFFECT.** This Stock Grant Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective legal representatives, successors and assigns.
7. **ENTIRE AGREEMENT.** This Stock Grant Agreement, together with the Plan, contains the entire understanding of the parties hereto with respect to the subject matter hereof and may be modified only by an instrument executed by the party sought to be charged.
8. **GOVERNING LAW.** This Stock Grant Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, excluding choice of law rules thereof.
9. **EXECUTION IN COUNTERPARTS.** This Stock Grant Agreement may be executed in counterparts, each of which shall be deemed to be an original, but both of which together shall constitute one and the same instrument.
10. **SIGNATURES.** Signatures hereon which are transmitted via facsimile, or other electronic image, shall be deemed original signatures.
11. **INTERPRETATION; HEADINGS.** The provisions of this Stock Grant Agreement shall be interpreted in a reasonable manner to give effect to the intent of the parties hereto. The headings and captions under sections and paragraphs of this Stock Grant Agreement are for convenience of reference only and do not in any way modify, interpret or construe the intent of the parties or affect any of the provisions of this Stock Grant Agreement.

[Remainder of page intentionally left blank; signature page follows]

IN WITNESS WHEREOF, the parties have executed this Stock Grant Agreement as of the day and year first above written.

KINGSTONE COMPANIES, INC.

By: /s/ Victor Brodsky

Victor Brodsky
Chief Financial Officer

/s/ Barry B. Goldstein

Signature of Grantee

Barry B. Goldstein

Name of Grantee

Address of Grantee

STOCK GRANT AGREEMENT made as of the 1st day of January, 2019 between **KINGSTONE COMPANIES, INC.**, a Delaware corporation (the “Company”), and **DALE A. THATCHER** (the “Grantee”).

WHEREAS, concurrently herewith, the Grantee is being appointed Chief Executive Officer and President of the Company;

WHEREAS, concurrently herewith, the Company and the Grantee are entering into an Employment Agreement of even date (the “Employment Agreement”);

WHEREAS, the Compensation Committee of the Board of Directors of the Company has approved the grant to the Grantee of common stock of the Company (“Common Stock”) pursuant to the Company’s 2014 Equity Participation Plan (the “Plan”).

NOW, THEREFORE, in consideration of the foregoing, the Company hereby grants to the Grantee an award of shares of Common Stock upon the following terms and conditions:

1. **DEFINED TERMS.** All terms used, but not otherwise defined, herein shall have the meanings ascribed to them in the Plan or the Employment Agreement.
 2. **GRANT.** Subject to the terms and conditions of the Plan and the provisions hereof, the Company hereby agrees to grant to the Grantee, pursuant to Section 16 of the Plan, an award of forty-two thousand two hundred thirty (42,230) shares of Common Stock (the “Shares”), such Shares being issuable on the Vesting Dates (as hereinafter defined) set forth in, and subject to the provisions of, Section 3 hereof.
 3. **VESTING OF SHARES.** (a) The Shares shall vest on the Vesting Dates set forth below, provided that the Grantee continues to serve as an employee of the Company and KICO as of the applicable Vesting Date (subject to paragraph (c) hereof):
 - (i) fourteen thousand seventy-seven (14,077) of the Shares on the first anniversary of the date hereof (the “First Vesting Date”);
 - (ii) fourteen thousand seventy-seven (14,077) of the Shares on the second anniversary of the date hereof (the “Second Vesting Date”); and
 - (iii) fourteen thousand seventy-six (14,076) of the Shares on the third anniversary of the date hereof (the “Third Vesting Date”); each of the First Vesting Date, the Second Vesting Date and the Third Vesting Date is referred to hereinafter as a “Vesting Date”).

(b) In the event that the Grantee does not continue to serve as an employee of the Company or KICO as of a Vesting Date as a result of the termination of the Grantee’s employment for Cause or the Grantee’s Voluntary Resignation (as hereinafter defined) (except in connection with a Change of Control, death, disability or retirement as provided for below, the Grantee shall not be entitled to receive any of the Shares issuable on such Vesting Date, and this Agreement shall terminate and be of no further force or effect. For the purposes hereof, the term “Voluntary Resignation” shall mean the Grantee’s resignation of employment (except following a request by the Company that he resign other than based upon Cause).

(c) In the event that (i) the Grantee’s employment with the Company and KICO is terminated other than for Cause (whether prior to or following a Change of Control), (ii) the Grantee’s employment with the Company and KICO is terminated as a result of the Grantee having become Disabled, (iii) the Grantee dies while an employee of the Company and KICO, or (iv) the Grantee resigns his employment with the Company and KICO (A) other than pursuant to a Voluntary Resignation or (B) within six (6) months following a Change of Control, the Shares shall vest on the date of termination of employment, the date of death or December 31, 2021, as the case may be (the “Termination Date”).

(d) In the event of the termination of the Grantee’s employment as the result of Retirement, the Company shall have no obligation to award the stock grants scheduled in Exhibit A of Grantee’s Employment Agreement in respect of the remaining years in the Term or any other period, if any; and all stock grants previously granted to Grantee by the time of Grantee’s termination of employment will continue to vest according to their original schedule as if the Grantee were still employed by the Company. For purposes of this agreement, “Retirement” shall mean any event whereby the Grantee conveys his intent to retire to the Board in writing at least six months prior to his expected termination date or on such other date that is mutually agreed between the Grantee and the Board, and Grantee covenants at or preceding the time of his termination (including through the execution of documentation prepared by the Company for this sole purpose at such time) that he shall not accept any operating executive role with another property and casualty insurance company for a period of three years following his separation from the Company.

(e) In the event that Shares vest on a Vesting Date or the Termination Date, the certificate representing the portion of the Shares then vested shall be issued by the Company as soon as reasonably practicable thereafter.

(f) The number of Shares issuable to the Grantee is subject to adjustment for any stock splits, reverse stock splits and other recapitalizations that take effect prior to a particular Vesting Date or the Termination Date, as the case may be.
-

4. **INCORPORATION BY REFERENCE.** The terms and conditions of the Plan are hereby incorporated by reference and made a part hereof.
5. **NOTICES.** Any notice or other communication given hereunder shall be deemed sufficient if in writing and hand delivered or sent by registered or certified mail, return receipt requested, addressed to the Company, 15 Joys Lane, Kingston, New York 12401, Attention: President and to the Grantee at the address indicated below, or, in each case, at such other address notice of which is given in accordance with the foregoing provisions. Notices shall be deemed to have been given on the date of hand delivery or mailing as provided for above, except notices of change of address, which shall be deemed to have been given when received.
6. **BINDING EFFECT.** This Stock Grant Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective legal representatives, successors and assigns.
7. **ENTIRE AGREEMENT.** This Stock Grant Agreement, together with the Plan, contains the entire understanding of the parties hereto with respect to the subject matter hereof and may be modified only by an instrument executed by the party sought to be charged.
8. **GOVERNING LAW.** This Stock Grant Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, excluding choice of law rules thereof.
9. **EXECUTION IN COUNTERPARTS.** This Stock Grant Agreement may be executed in counterparts, each of which shall be deemed to be an original, but both of which together shall constitute one and the same instrument.
10. **FACSIMILE SIGNATURES.** Signatures hereon which are transmitted via facsimile, or other electronic image, shall be deemed original signatures.
11. **INTERPRETATION; HEADINGS.** The provisions of this Stock Grant Agreement shall be interpreted in a reasonable manner to give effect to the intent of the parties hereto. The headings and captions under sections and paragraphs of this Stock Grant Agreement are for convenience of reference only and do not in any way modify, interpret or construe the intent of the parties or affect any of the provisions of this Stock Grant Agreement.

[Remainder of page intentionally left blank; signature page follows]

IN WITNESS WHEREOF, the parties have executed this Stock Grant Agreement as of the day and year first above written.

KINGSTONE COMPANIES, INC.

By: /s/ Barry B. Goldstein

Barry B. Goldstein

/s/ Dale A. Thatcher

Signature of Grantee

Dale A. Thatcher

Name of Grantee

212 Third Street Milford, PA 18337

Address of Grantee

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statements of Kingstone Companies, Inc. on Form S-3 (No. 333-134102, No. 333-215426 and No. 333-221615) and Form S-8 (No. 333-132898, No. 333-173351, No. 333-191366 and No. 333-207986) of our report dated March 16, 2020, with respect to our audits of the consolidated financial statements of Kingstone Companies, Inc. and Subsidiaries as of December 31, 2019 and 2018 and for each of the two years in the period ended December 31, 2019 and our report dated March 16, 2020 with respect to our audit of the effectiveness of internal control over financial reporting of Kingstone Companies, Inc. and Subsidiaries as of December 31, 2019, which reports are included in this Annual Report on Form 10-K of Kingstone Companies, Inc. for the year ended December 31, 2019.

Our report on the effectiveness of internal control over financial reporting expressed an adverse opinion because of the existence of a material weakness.

/s/ Marcum LLP

Marcum LLP
Hartford, CT
March 16, 2020

CERTIFICATION

I, Barry B. Goldstein, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: March 16, 2020

/s/ Barry B. Goldstein

Barry B. Goldstein
Chief Executive Officer

CERTIFICATION

I, Victor Brodsky, certify that:

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

Date: March 16, 2020

/s/ Victor Brodsky

Victor Brodsky
Chief Financial Officer

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

The undersigned hereby certify, pursuant to, and as required by, 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Kingstone Companies, Inc. (the "Company") on Form 10-K for the year ended December 31, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 16, 2020

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

/s/ Victor Brodsky
Victor Brodsky
Chief Financial Officer
