KINGSTONE COMPANIES, INC.
Form 10-Q
November 10, 2016

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

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
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	36-2476480
(State or other jurisdiction of incorporation or organization)	(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)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 (Do not check if a smaller reporting company)	Smaller reporting company

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

As of November 10, 2016 there were 7,913,366 shares of the registrant’s common stock outstanding.

KINGSTONE COMPANIES, INC.
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Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally, these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, projected or anticipated benefits from acquisitions to be made by us, or projections involving anticipated revenues, earnings 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 that may influence the accuracy of the statements and the projections upon which the statements are based. Factors which may affect our results include, but are not limited to, the risks and uncertainties discussed in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2015 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.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	September 30, 2016	December 31, 2015
	(unaudited)	
Assets		
Fixed-maturity securities, held-to-maturity, at amortized cost (fair value of $5,482,735 at September 30, 2016 and $5,241,095 at December 31, 2015)	$5,094,455	$5,138,872
Fixed-maturity securities, available-for-sale, at fair value (amortized cost of $78,917,448 at September 30, 2016 and $62,221,129 at December 31, 2015)	81,078,953	62,502,064
Equity securities, available-for-sale, at fair value (cost of $9,978,137 at September 30, 2016 and $8,751,537 at December 31, 2015)	10,363,702	9,204,270
Total investments	96,537,110	76,845,206
Cash and cash equivalents	12,430,687	13,551,372
Premiums receivable, net	11,516,429	10,621,655
Reinsurance receivables, net	31,212,976	31,270,235
Deferred policy acquisition costs	12,032,407	10,835,306
Intangible assets, net	1,435,000	1,757,816
Property and equipment, net	3,161,227	3,152,266
Other assets	1,153,951	1,095,894
Total assets	$169,479,787	$149,129,750
Liabilities		
Loss and loss adjustment expense reserves	$39,802,323	$39,876,500
Unearned premiums	53,763,848	48,890,241
Advance premiums	2,046,281	1,199,376
Reinsurance balances payable	3,996,426	1,688,922
Deferred ceding commission revenue	6,652,854	6,435,068
Accounts payable, accrued expenses and other liabilities	4,893,246	4,826,603
Income taxes payable	540,686	263,622
Deferred income taxes	1,115,912	672,190
Total liabilities	112,811,576	103,852,522

Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, $.01 par value; authorized 2,500,000 shares	-	-
Common stock, $.01 par value; authorized 20,000,000 shares; issued 8,887,344 shares at September 30, 2016 and 8,289,606 at December 31, 2015; outstanding 7,912,875 shares at September 30, 2016 and 7,328,637 shares at December 31, 2015	88,873	82,896
Capital in excess of par	37,891,275	32,987,082
Accumulated other comprehensive income	1,681,065	484,220
Retained earnings	19,002,460	13,605,225
	58,663,673	47,159,423
Treasury stock, at cost, 974,469 shares at September 30, 2016 and 960,969 shares at December 31, 2015	(1,995,462)	(1,882,195)
Total stockholders' equity	56,668,211	45,277,228
Total liabilities and stockholders' equity	$169,479,787	$149,129,750

See accompanying notes to condensed consolidated financial statements.

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KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income and Comprehensive Income (Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenues				
Net premiums earned	$15,646,181	$13,129,604	$45,188,731	$34,381,118
Ceding commission revenue	2,934,928	2,643,531	8,274,290	9,388,457
Net investment income	709,072	649,441	2,286,199	1,850,069
Net realized gains (losses) on investments	241,035	(40,487)	604,903	(105,718)
Other income	297,181	275,280	831,036	1,299,511
Total revenues	19,828,397	16,657,369	57,185,159	46,813,437
Expenses				
Loss and loss adjustment expenses	5,134,854	5,050,194	20,405,545	16,884,224
Commission expense	4,603,755	4,021,383	13,400,029	11,033,874
Other underwriting expenses	4,039,209	3,389,024	10,981,784	9,349,842
Other operating expenses	530,261	468,352	1,292,196	1,174,693
Depreciation and amortization	262,387	267,424	835,388	749,658
Total expenses	14,570,466	13,196,377	46,914,942	39,192,291
Income from operations before taxes	5,257,931	3,460,992	10,270,217	7,621,146
Income tax expense	1,797,305	1,115,338	3,426,298	2,513,811
Net income	3,460,626	2,345,654	6,843,919	5,107,335
Other comprehensive income (loss), net of tax				
Gross change in unrealized gains (losses) on available-for-sale-securities	60,391	(92,097)	2,418,305	(699,619)
Reclassification adjustment for (gains) losses included in net income	(241,035)	40,487	(604,903)	105,718
Net change in unrealized gains (losses)	(180,644)	(51,610)	1,813,402	(593,901)
Income tax (expense) benefit related to items of other comprehensive income (loss)	61,419	17,547	(616,557)	201,926
Other comprehensive income (loss), net of tax	(119,225)	(34,063)	1,196,845	(391,975)

Comprehensive income	$3,341,401	$2,311,591	$8,040,764	$4,715,360
Earnings per common share:				
Basic	$0.44	$0.32	$0.89	$0.70
Diluted	$0.43	$0.32	$0.89	$0.69
Weighted average common shares outstanding				
Basic	7,911,353	7,334,269	7,676,887	7,330,178
Diluted	7,972,925	7,381,626	7,729,712	7,367,714
Dividends declared and paid per common share	$0.0625	$0.0500	$0.1875	$0.1500

See accompanying notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Stockholders' Equity (Unaudited)
Nine months ended September 30, 2016

	Preferred Stock		Common Stock		Capital in Excess of Par	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock		T
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance, January 1, 2016	-	$-	8,289,606	$82,896	$32,987,082	$484,220	$13,605,225	960,969	$(1,882,195)	$4
Proceeds from private placement, net of closing costs of $192,369	-	-	595,238	5,952	4,801,679	-	-	-	-	4
Stock-based compensation	-	-	-	-	89,814	-	-	-	-	8
Exercise of stock options	-	-	2,500	25	12,700	-	-	-	-	1
Acquisition of treasury stock	-	-	-	-	-	-	-	13,500	(113,267)	(
Dividends	-	-	-	-	-	-	(1,446,684)	-	-	(
Net income	-	-	-	-	-	-	6,843,919	-	-	6
Change in unrealized gains on available-for-sale securities, net of tax	-	-	-	-	-	1,196,845	-	-	-	1
Balance, September 30, 2016	-	$-	8,887,344	$88,873	$37,891,275	$1,681,065	$19,002,460	974,469	$(1,995,462)	$

See accompanying notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

Nine months ended September 30,	2016	2015
Cash flows from operating activities:		
Net income	$6,843,919	$5,107,335
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Net realized (gains) losses on investments	(604,903)	105,718
Depreciation and amortization	835,388	749,658
Amortization of bond premium, net	310,838	257,996
Stock-based compensation	89,814	129,546
Excess tax benefit from exercise of stock options	-	(223,976)
Deferred income tax expense	(172,835)	(279,793)
(Increase) decrease in operating assets:		
Premiums receivable, net	(894,774)	(1,885,547)
Receivables - reinsurance contracts	-	(983,807)
Reinsurance receivables, net	57,259	4,403,717
Deferred policy acquisition costs	(1,197,101)	(1,470,726)
Other assets	(308,505)	(16,634)
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	(74,177)	(1,013,191)
Unearned premiums	4,873,607	6,983,289
Advance premiums	846,905	549,204
Reinsurance balances payable	2,307,504	(754,150)
Deferred ceding commission revenue	217,786	113,367
Accounts payable, accrued expenses and other liabilities	343,707	952,160
Net cash flows provided by operating activities	13,474,432	12,724,166
Cash flows from investing activities:		
Purchase - fixed-maturity securities available-for-sale	(33,295,669)	(13,187,405)
Purchase - equity securities available-for-sale	(6,728,540)	(3,552,291)
Sale or maturity - fixed-maturity securities available-for-sale	16,374,028	1,680,633
Sale - equity securities available-for-sale	6,065,744	1,642,971
Acquisition of fixed assets	(521,533)	(1,166,834)
Other investing activities	250,448	6,203
Net cash flows used in investing activities	(17,855,522)	(14,576,723)
Cash flows from financing activities:		

Net proceeds from issuance of common stock	4,807,631	-
Proceeds from exercise of stock options	12,725	-
Withholding taxes paid on net exercise of stock options	-	(243,662)
Excess tax benefit from exercise of stock options	-	223,976
Purchase of treasury stock	(113,267)	(204,060)
Dividends paid	(1,446,684)	(1,098,946)
Net cash flows provided by (used in) financing activities	3,260,405	(1,322,692)
Decrease in cash and cash equivalents	$(1,120,685)	$(3,175,249)
Cash and cash equivalents, beginning of period	13,551,372	9,906,878
Cash and cash equivalents, end of period	$12,430,687	$6,731,629
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$3,799,671	$1,457,000
Supplemental schedule of non-cash investing and financing activities:		
Value of shares deducted from exercise of stock options for payment of withholding taxes	$-	$243,662

See accompanying notes to condensed consolidated financial statements.

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KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Nature of Business and Basis of Presentation

Kingstone Companies, Inc. (referred to herein as "Kingstone" or the “Company”), through its wholly owned subsidiary, Kingstone Insurance Company (“KICO”), underwrites property and casualty insurance to small businesses and individuals exclusively through independent agents and brokers. KICO is a licensed insurance company in the States of New York, New Jersey, Connecticut, Pennsylvania, Rhode Island and Texas; however, KICO writes substantially all of its business in New York. Through March 31, 2015, Kingstone, through its wholly owned subsidiary, Payments Inc., a licensed premium finance company in the State of New York, received fees for placing contracts with a third party licensed premium finance company (see Note 11 – Premium Finance Placement Fees).

The accompanying unaudited condensed consolidated financial statements included in this report have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and the instructions to Securities and Exchange Commission (“SEC”) Form 10-Q and Article 8-03 of SEC Regulation S-X. The principles for condensed interim financial information do not require the inclusion of all the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these condensed financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended December 31, 2015 and notes thereto included in the Company’s Annual Report on Form 10-K filed with the SEC on March 24, 2016. The accompanying condensed consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with standards of the Public Company Accounting Oversight Board (United States) but, in the opinion of management, such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the Company’s financial position and results of operations. The results of operations for the nine months ended September 30, 2016 may not be indicative of the results that may be expected for the year ending December 31, 2016.

Note 2 – Accounting Policies

Use of Estimates

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

Principles of Consolidation

The consolidated financial statements consist of 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) Payments Inc. All significant inter-company account balances and transactions have been eliminated in consolidation.

Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 – Revenue from Contracts with Customers (Topic 606). 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. ASU 2014-09, as amended by ASU 2015-14, ASU 2016-08 and ASU 2016-10, is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. The Company will apply the guidance using a modified retrospective approach. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

In May 2015, FASB issued ASU 2015-09, Financial Services – Insurance (Topic 944): Disclosures About Short-Duration Contracts. The updated accounting guidance requires expanded disclosures for insurance entities that issue short-duration contracts. The expanded disclosures are designed to provide additional insight into an insurance entity's ability to underwrite and anticipate costs associated with insurance claims. The disclosures include information about incurred and paid claims development by accident year, on a net basis after reinsurance, for the number of years claims incurred typically remain outstanding, not to exceed ten years. Each period presented in the disclosure about claims development that precedes the current reporting period is considered required supplementary information. The expanded disclosures also include information about significant changes in methodologies and assumptions, a reconciliation of incurred and paid claims development to the carrying amount of the liability for unpaid claims and claim adjustment expenses, the total amount of incurred but not reported liabilities plus expected development, claims frequency information including the methodology used to determine claim frequency and any changes to that methodology, and claim duration. The guidance is effective for annual periods beginning after December 15, 2015, and interim periods beginning after December 15, 2016, and is to be applied retrospectively. The new guidance affects disclosures only and will have no impact on the Company's results of operations or financial position.

In January 2016, FASB issued ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The updated accounting guidance requires changes to the reporting model for financial instruments. The primary change for the Company is expected to be the requirement for equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The updated guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the effect the updated guidance will have on its consolidated financial statements.

In February 2016, FASB issued ASU 2016-02 – Leases (Topic 842). Under this ASU, lessees will recognize 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 is to be measured as 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 rate implicit in the lease or, if not known, the lessee's incremental borrowing rate. The lessee's income statement treatment for leases will vary depending on the nature of what is being

leased. A financing type lease is present when, among other matters, the asset is being leased for a substantial portion of its economic life or has an end-of-term title transfer or a bargain purchase option as in today's practice. The payment of the liability set up for such leases will be apportioned between interest and principal; the right-of use asset will be generally amortized on a straight-line basis. If the lease does not qualify as a financing type lease, it will be accounted for on the income statement as rent on a straight-line basis. The guidance will be effective for the Company for reporting periods beginning after December 15, 2018. The Company will apply the guidance using a modified retrospective approach. Early application is permitted. The Company is evaluating whether the adoption of ASU 2016-02 will have a significant impact on its consolidated results of operations, financial position or cash flows.

In January 2016, FASB issued ASU 2016-09 – Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments are intended to improve the accounting for employee share-based payments. These amendments to current accounting guidance will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled rather than through additional paid in capital in the equity section of the balance sheet. The amendments also permit an employer to repurchase an employee's shares at the maximum statutory tax rate in the employee's applicable jurisdiction for tax withholding purposes without triggering liability accounting. Finally, the amendments permit entities to make a one-time accounting policy election to account for forfeitures as they occur. Specific adoption methods depend on the issue being adopted and range from prospective to retrospective adoption. The amendments are effective for public companies for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted, however all amendments must be adopted in the same period. The Company is evaluating whether the adoption of ASU 2016-09 will have a significant impact on its consolidated results of operations, financial position or cash flows.

In June 2016, FASB issued ASU 2016-13 - Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. 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 on January 1, 2020. The Company is currently evaluating the effect the updated guidance will have on its consolidated financial statements.

In August 2016, FASB issued ASU 2016-15 - Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The revised ASU provides accounting guidance for eight specific cash flow issues. FASB issued the standard to clarify areas where GAAP has been either unclear or lacking in specific guidance. ASU 2016-15 will be effective for the Company for reporting periods beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the effect the updated guidance will have on its consolidated statement of cash flows.

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 fair value of investments in available-for-sale fixed-maturity securities and equity securities as of September 30, 2016 and December 31, 2015 are summarized as follows:

September 30, 2016

Category	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses: Less than 12 Months	Gross Unrealized Losses: More than 12 Months	Fair Value	Net Unrealized Gains/ (Losses)
Fixed-Maturity Securities:						
Political subdivisions of States, Territories and Possessions	$8,094,036	$465,453	$(4,564)	$-	$8,554,925	$460,889
Corporate and other bonds Industrial and miscellaneous	51,884,984	1,613,713	(45,063)	(47,332)	53,406,302	1,521,318
Residential mortgage backed securities	18,938,428	243,487	(54,967)	(9,222)	19,117,726	179,298
Total fixed-maturity securities	78,917,448	2,322,653	(104,594)	(56,554)	81,078,953	2,161,505
Equity Securities:						
Preferred stocks	6,107,947	90,696	(35,823)	(56,071)	6,106,749	(1,198)
Common stocks	3,870,190	500,681	(113,918)	-	4,256,953	386,763
Total equity securities	9,978,137	591,377	(149,741)	(56,071)	10,363,702	385,565
Total	$88,895,585	$2,914,030	$(254,335)	$(112,625)	$91,442,655	$2,547,070

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December 31, 2015

Category	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less than 12 Months	More than 12 Months	Fair Value	Net Unrealized Gains/ (Losses)
Fixed-Maturity Securities:						
Political subdivisions of States, Territories and Possessions	$12,139,793	$431,194	$(15,889)	$-	$12,555,098	$415,305
Corporate and other bonds Industrial and miscellaneous	45,078,044	490,444	(512,427)	(99,593)	44,956,468	(121,576)
Residential mortgage backed securities	5,003,292	48,375	(61,169)	-	4,990,498	(12,794)
Total fixed-maturity securities	62,221,129	970,013	(589,485)	(99,593)	62,502,064	280,935
Equity Securities:						
Preferred stocks	2,874,173	70,799	-	(29,322)	2,915,650	41,477
Common stocks	5,877,364	514,977	(103,721)	-	6,288,620	411,256
Total equity securities	8,751,537	585,776	(103,721)	(29,322)	9,204,270	452,733
Total	$70,972,666	$1,555,789	$(693,206)	$(128,915)	$71,706,334	$733,668

A summary of the amortized cost and fair value of the Company’s investments in available-for-sale fixed-maturity securities by contractual maturity as of September 30, 2016 and December 31, 2015 is shown below:

	September 30, 2016		December 31, 2015	
	Amortized		Amortized	

Remaining Time to Maturity	Cost	Fair Value	Cost	Fair Value
Less than one year	$1,553,198	$1,574,389	$827,246	$837,918
One to five years	27,294,171	28,183,978	17,146,349	17,393,571
Five to ten years	30,249,462	31,282,681	37,877,726	37,884,450
More than 10 years	882,189	920,179	1,366,516	1,395,627
Residential mortgage backed securities	18,938,428	19,117,726	5,003,292	4,990,498
Total	$78,917,448	$81,078,953	$62,221,129	$62,502,064

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

Held-to-Maturity Securities

The amortized cost and fair value of investments in held-to-maturity fixed-maturity securities as of September 30, 2016 and December 31, 2015 are summarized as follows:

September 30, 2016

						Net
	Cost or	Gross	Gross Unrealized Losses			Unrealized
	Amortized	Unrealized	Less than 12	More than 12	Fair	Gains/
Category	Cost	Gains	Months	Months	Value	(Losses)
U.S. Treasury securities	$606,417	$147,622	$-	$-	$754,039	$147,622
Political subdivisions of States, Territories and Possessions	1,349,988	101,599	-	-	1,451,587	101,599
Corporate and other bonds Industrial and miscellaneous	3,138,050	170,747	-	(31,688)	3,277,109	139,059
Total	$5,094,455	$419,968	$-	$(31,688)	$5,482,735	$388,280

December 31, 2015

						Net
	Cost or	Gross	Gross Unrealized Losses			Unrealized
	Amortized	Unrealized	Less than 12	More than 12	Fair	Gains/
Category	Cost	Gains	Months	Months	Value	(Losses)

U.S. Treasury securities	$606,389	$147,650	$-	$-	$754,039	$147,650
Political subdivisions of States, Territories and Possessions	1,417,679	70,284	-	(54,189)	1,433,774	16,095
Corporate and other bonds Industrial and miscellaneous	3,114,804	82,265	(17,980)	(125,807)	3,053,282	(61,522)
Total	$5,138,872	$300,199	$(17,980)	$(179,996)	$5,241,095	$102,223

Held-to-maturity U.S. Treasury securities are held in trust pursuant to the New York State Department of Financial Services' minimum funds requirement.

A summary of the amortized cost and fair value of the Company's investments in held-to-maturity securities by contractual maturity as of September 30, 2016 and December 31, 2015 is shown below:

	September 30, 2016		December 31, 2015	
	Amortized		Amortized	
Remaining Time to Maturity	Cost	Fair Value	Cost	Fair Value
Less than one year	$-	$-	$-	$-
One to five years	650,000	658,165	500,000	496,245
Five to ten years	3,838,038	4,070,530	4,032,483	3,990,811
More than 10 years	606,417	754,040	606,389	754,039
Total	$5,094,455	$5,482,735	$5,138,872	$5,241,095

Investment Income

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Income:				
Fixed-maturity securities	$602,337	$595,529	$1,952,589	$1,671,821
Equity securities	135,809	125,379	416,412	378,084
Cash and cash equivalents	5,674	250	14,852	465
Total	743,820	721,158	2,383,853	2,050,370
Expenses:				
Investment expenses	34,748	71,717	97,654	200,301
Net investment income	$709,072	$649,441	$2,286,199	$1,850,069

Proceeds from the sale and maturity of fixed-maturity securities available-for-sale were $16,374,028 and $1,680,633 for the nine months ended September 30, 2016 and 2015, respectively.

Proceeds from the sale of equity securities available-for-sale were $6,065,744 and $1,642,971 for the nine months ended September 30, 2016 and 2015, respectively.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Fixed-maturity securities:				
Gross realized gains	$21,173	$20	$333,066	$20
Gross realized losses	(51,085)	(25,886)	(222,056)	(112,097)
	(29,912)	(25,866)	111,010	(112,077)
Equity securities:				
Gross realized gains	270,947	12,549	586,564	48,970
Gross realized losses	-	(27,170)	(22,760)	(42,611)
	270,947	(14,621)	563,804	6,359
Other-than-temporary impairment losses:				
Fixed-maturity securities	-	-	(69,911)	-
	-	-	(69,911)	-
Net realized gains (losses)	$241,035	$(40,487)	$604,903	$(105,718)

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 and equity securities portfolios to evaluate the necessity of recording impairment losses for other-than-temporary declines in the 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 other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections. For held-to-maturity debt securities, the amount of OTTI recorded in other comprehensive income for the noncredit portion of a previous OTTI is amortized prospectively over the remaining life of the security on the basis of timing of future estimated cash flows of the security.

OTTI losses are recorded in the condensed consolidated statements of income and comprehensive income as net realized losses on investments and result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process and different judgments and assumptions could affect the timing of loss realization. At September 30, 2016 and December 31, 2015, there were 37 and 57 securities, respectively, that accounted for the gross unrealized loss. As of September 30, 2016 the Company's held-to-maturity debt securities included an investment in one bond issued by the Commonwealth of Puerto Rico ("PR"). In July 2016, PR defaulted on its interest payment to bondholders. Due to the credit deterioration of PR, the Company recorded a credit loss component of OTTI on this investment as of June 30, 2016. For the nine months ended September 30, 2016, the full amount of the write-down was recognized as a credit component of OTTI in the amount of $69,911 and is included as a reduction to net realized gains in the condensed consolidated statements of income and comprehensive income. The Company determined that none of the other unrealized losses were deemed to be OTTI for its portfolio of fixed-maturity investments and equity securities for the nine months ended September 30, 2016 and 2015. Significant factors influencing the Company's determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent and ability to retain the investment for a period of time sufficient to allow for an anticipated recovery of fair value to the Company's cost basis.

The Company held securities with unrealized losses representing declines that were considered temporary at September 30, 2016 and December 31, 2015 as follows:

	September 30, 2016							
	Less than 12 months			12 months or more			Total	
			No. of			No. of	Aggregate	
	Fair	Unrealized	Positions	Fair	Unrealized	Positions	Fair	Unrealized
Category	Value	Losses	Held	Value	Losses	Held	Value	Losses
Fixed-Maturity Securities:								
Political subdivisions of								
States, Territories and								
Possessions	$330,141	$(4,564)	1	$-	$-	-	$330,141	$(4,564)
Corporate and other bonds industrial and miscellaneous	7,829,356	(45,063)	13	716,422	(47,332)	2	8,545,778	(92,395)
Residential mortgage backed securities	2,444,402	(54,967)	13	396,682	(9,222)	2	2,841,084	(64,189)
Total fixed-maturity securities	$10,603,899	$(104,594)	27	$1,113,104	$(56,554)	4	$11,717,003	$(161,148)
Equity Securities:								

Preferred stocks	$1,797,900	$(35,823)	4	$675,250	$(56,071)	1	$2,473,150	$(91,894)
Common stocks	603,500	(113,918)	1	-	-	-	603,500	(113,918)
Total equity securities	$2,401,400	$(149,741)	5	$675,250	$(56,071)	1	$3,076,650	$(205,812)
Total	$13,005,299	$(254,335)	32	$1,788,354	$(112,625)	5	$14,793,653	$(366,960)

	December 31, 2015							
	Less than 12 months			12 months or more			Total	
			No. of			No. of	Aggregate	
	Fair	Unrealized	Positions	Fair	Unrealized	Positions	Fair	Unrealized
Category	Value	Losses	Held	Value	Losses	Held	Value	Losses
Fixed-Maturity Securities:								
Political subdivisions of States, Territories and Possessions	$1,432,005	$(15,889)	4	$-	$-	-	$1,432,005	$(15,889)
Corporate and other bonds industrial and miscellaneous	18,424,609	(512,427)	32	636,093	(99,593)	2	19,060,702	(612,020)
Residential mortgage backed securities	2,413,980	(61,169)	12	-	-	-	2,413,980	(61,169)
Total fixed-maturity securities	$22,270,594	$(589,485)	48	$636,093	$(99,593)	2	$22,906,687	$(689,078)
Equity Securities: Preferred stocks	$-	$-	-	$702,000	$(29,322)	1	$702,000	$(29,322)
	2,538,900	(103,721)	6	-	-	-	2,538,900	(103,721)

Common stocks								
Total equity securities	$2,538,900	$(103,721)	6	$702,000	$(29,322)	1	$3,240,900	$(133,043)
Total	$24,809,494	$(693,206)	54	$1,338,093	$(128,915)	3	$26,147,587	$(822,121)

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Note 4 - Fair Value Measurements

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

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

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

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

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

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

The Company’s investments are allocated among pricing input levels at September 30, 2016 and December 31, 2015 as follows:

	September 30, 2016			
($ in thousands)	Level 1	Level 2	Level 3	Total
Fixed-maturity securities available-for-sale				
Political subdivisions of				
States, Territories and				
Possessions	$-	$8,554,925	$-	$8,554,925
Corporate and other bonds industrial and miscellaneous	47,650,245	5,756,057	-	53,406,302
Residential mortgage backed securities	-	19,117,726	-	19,117,726
Total fixed maturities	47,650,245	33,428,708	-	81,078,953
Equity securities	10,363,702	-	-	10,363,702
Total investments	$58,013,947	$33,428,708	$-	$91,442,655

	December 31, 2015			
($ in thousands)	Level 1	Level 2	Level 3	Total
Fixed-maturity securities available-for-sale				
Political subdivisions of				
States, Territories and				

Possessions	$-	$12,555,098	$-	$12,555,098
Corporate and other bonds industrial and miscellaneous	37,964,006	6,992,462	-	44,956,468
Residential mortgage backed securities	-	4,990,498	-	4,990,498
Total fixed maturities	37,964,006	24,538,058	-	62,502,064
Equity securities	9,204,270	-	-	9,204,270
Total investments	$47,168,276	$24,538,058	$-	$71,706,334

Note 5 - Fair Value of Financial Instruments

The Company uses the following methods and assumptions in estimating its fair value disclosures for financial instruments:

Equity securities and fixed income securities available-for-sale: Fair value is based on quoted market prices from a recognized pricing service.

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 condensed consolidated balance sheets for these financial instruments approximate their fair values due to the short-term nature of the assets.

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

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

The estimated fair values of the Company's financial instruments as of September 30, 2016 and December 31, 2015 are as follows:

	September 30, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed-maturity securities held-to-maturity	$5,094,455	$5,482,735	$5,138,872	$5,241,095
Cash and cash equivalents	$12,430,687	$12,430,687	$13,551,372	$13,551,372
Premiums receivable	$11,516,429	$11,516,429	$10,621,655	$10,621,655
Reinsurance receivables	$31,212,976	$31,212,976	$31,270,235	$31,270,235
Real estate, net of accumulated depreciation	$1,669,262	$1,925,000	$1,710,897	$1,925,000
Reinsurance balances payable	$3,996,426	$3,996,426	$1,688,922	$1,688,922

Note 6 – Property and Casualty Insurance Activity

Premiums Earned

Premiums written, ceded and earned are as follows:

	Direct	Assumed	Ceded	Net
Nine months ended September 30, 2016				
Premiums written	$76,375,159	$14,631	$(27,542,953)	$48,846,837
Change in unearned premiums	(4,875,664)	2,058	1,215,500	(3,658,106)
Premiums earned	$71,499,495	$16,689	$(26,327,453)	$45,188,731
Nine months ended September 30, 2015				
Premiums written	$67,225,990	$34,815	$(21,913,608)	$45,347,197
Change in unearned premiums	(6,984,651)	1,362	(3,982,790)	(10,966,079)

Premiums earned	$60,241,339	$36,177	$(25,896,398)	$34,381,118
Three months ended September 30, 2016				
Premiums written	$27,170,743	$(1,367)	$(9,937,096)	$17,232,280
Change in unearned premiums	(2,302,119)	(1,479)	717,499	(1,586,099)
Premiums earned	$24,868,624	$(2,846)	$(9,219,597)	$15,646,181
Three months ended September 30, 2015				
Premiums written	$24,570,496	$12,945	$(3,245,871)	$21,337,570
Change in unearned premiums	(3,330,333)	(1,015)	(4,876,618)	(8,207,966)
Premiums earned	$21,240,163	$11,930	$(8,122,489)	$13,129,604

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Premium receipts in advance of the policy effective date are recorded as advance premiums. The balance of advance premiums as of September 30, 2016 and December 31, 2015 was approximately $2,046,000 and $1,199,000, respectively.

Loss and Loss Adjustment Expense Reserves

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

	Nine months ended September 30,	
	2016	2015
Balance at beginning of period	$39,876,500	$39,912,683
Less reinsurance recoverables	(16,706,364)	(18,249,526)
Net balance, beginning of period	23,170,136	21,663,157
Incurred related to:		
Current year	20,572,367	17,353,585
Prior years	(166,822)	(469,361)
Total incurred	20,405,545	16,884,224
Paid related to:		
Current year	11,855,911	9,083,229
Prior years	7,359,828	6,843,425
Total paid	19,215,739	15,926,654
Net balance at end of period	24,359,942	22,620,727
Add reinsurance recoverables	15,442,381	16,278,765
Balance at end of period	$39,802,323	$38,899,492

Incurred losses and LAE are net of reinsurance recoveries under reinsurance contracts of $8,676,621 and $11,026,027 for the nine months ended September 30, 2016 and 2015, respectively.

Prior year incurred loss and LAE development is based upon estimates by line of business and accident year. Prior year loss and LAE development incurred during the nine months ended September 30, 2016 and 2015 was $(166,822) favorable and $(469,361) favorable, respectively. The Company's management continually monitors claims activity to assess the appropriateness of carried case and incurred but not reported ("IBNR") reserves, giving consideration to Company and industry trends.

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 year'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 monthly 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 years. Several methods are used, varying by product line and accident year, in order to determine the required IBNR 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.

Management's best estimate of required reserves is generally based on an average of the methods above, with appropriate weighting of the various 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 claims trends that have emerged or that would cause future adverse development that have not already been considered in existing case reserves and in its current loss development factors.

In New York State, lawsuits for negligence are subject to certain limitations and must be commenced within three years from the date of the accident or are otherwise barred. Accordingly, the Company's exposure to unreported claims ('pure' IBNR) for accident dates of September 30, 2013 and prior is limited although there remains the possibility of adverse development on reported claims ('case development' IBNR).

Commercial Auto Line of Business

Effective October 1, 2014 the Company decided that it would no longer accept applications for new commercial auto policies. The action was taken following a series of underwriting and pricing measures which were intended to improve the profitability of this line of business. The actions taken did not yield the hoped for results. In February 2015, the Company made the decision that it would no longer offer renewals on its existing commercial auto policies beginning with those that expired on or after May 1, 2015. The Company had -0- and 238 commercial auto policies in force as of September 30, 2016 and 2015, respectively.

Reinsurance

The Company's quota share reinsurance treaties are on a July 1 through June 30 fiscal year basis; therefore, for year to date fiscal periods after June 30, two separate treaties will be included in such periods.
The Company's quota share reinsurance treaties in effect for the nine months ended September 30, 2016 for its personal lines business, which primarily consists of homeowners' policies, were covered under the July 1, 2015/June 30, 2016 treaty year ("2015/2016 Treaty") and July 1, 2016/June 30, 2017 treaty year ("2016/2017 Treaty"). The Company's quota share reinsurance treaties in effect for the nine months ended September 30, 2015 were covered under the July 1, 2014/June 30, 2015 treaty year ("2014/2015 Treaty") and the 2015/2016 Treaty.

The Company's personal lines quota share treaty that covered the July 1, 2013/June 30, 2014 treaty year was a two year treaty that expired on June 30, 2015. Effective July 1, 2014, the Company exercised its contractual option to reduce the ceding percentage in the personal lines quota share treaty from 75% to 55%.

The Company's 2014/2015 Treaty, 2015/2016 Treaty and 2016/2017 Treaty provide for the following material terms:

	Treaty Year		
	July 1, 2016	July 1, 2015	July 1, 2014
	to	to	to
Line of Busines	June 30, 2017	June 30, 2016	June 30, 2015
Personal Lines:			
Homeowners, dwelling fire and canine legal liability			
Quota share treaty:			
Percent ceded	40%	40%	55%
Risk retained	$500,000	$450,000	$360,000
Losses per occurrence subject to quota share reinsurance coverage	$833,333	$750,000	$800,000
Excess of loss coverage above quota share coverage	$3,666,667 in excess of $833,333	$3,750,000 in excess of $750,000	$3,200,000 in excess of $800,000
Total reinsurance coverage per occurrence	$4,000,000	$4,050,000	$3,640,000
Losses per occurrence subject to reinsurance coverage	$4,500,000	$4,500,000	$4,000,000
Expiration date	June 30, 2017	June 30, 2016	June 30, 2015
Personal Umbrella			
Quota share treaty:			
Percent ceded - first $1,000,000 of coverage	90%	90%	90%
Percent ceded - excess of $1,000,000 of coverage	100%	100%	100%
Risk retained	$100,000	$100,000	$100,000
Total reinsurance coverage per occurrence	$4,900,000	$2,900,000	$2,900,000
Losses per occurrence subject to quota share reinsurance coverage	$5,000,000	$3,000,000	$3,000,000
Expiration date	June 30, 2017	June 30, 2016	June 30, 2015
Commercial Lines:			
General liability commercial policies, except for commercial auto			

Quota share treaty:			
Percent ceded (terminated effective July 1, 2014)	None	None	None
Risk retained	$500,000	$425,000	$400,000
Losses per occurrence subject to quota share reinsurance coverage	None	None	None
Excess of loss coverage above quota share coverage	$4,000,000 in excess of $500,000	$4,075,000 in excess of $425,000	$3,600,000 in excess of $400,000
Total reinsurance coverage per occurrence	$4,000,000	$4,075,000	$3,600,000
Losses per occurrence subject to reinsurance coverage	$4,500,000	$4,500,000	$4,000,000
Commercial Umbrella			
Quota share treaty:			
Percent ceded - first $1,000,000 of coverage	90%		
Percent ceded - excess of $1,000,000 of coverage	100%		
Risk retained	$100,000		
Total reinsurance coverage per occurrence	$4,900,000		
Losses per occurrence subject to quota share reinsurance coverage	$5,000,000		
Expiration date	June 30, 2017		
Commercial Auto:			
Risk retained		$300,000	$300,000
Excess of loss coverage in excess of risk retained		$1,700,000 in excess of $300,000	$1,700,000 in excess of $300,000
Catastrophe Reinsurance:			
Initial loss subject to personal lines quota share treaty	$5,000,000	$4,000,000	$4,000,000
Risk retained per catastrophe occurrence (1)	$3,000,000	$2,400,000	$1,800,000
Catastrophe loss coverage in excess of quota share coverage (2) (3)	$247,000,000	$176,000,000	$137,000,000
Severe winter weather aggregate (3)	No	Yes	Yes
Reinstatement premium protection (4)	Yes	Yes	No

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1.
Plus losses in excess of catastrophe coverage.
2.
Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts. Effective July 1, 2016, the duration of a catastrophe occurrence from windstorm, hail, tornado, hurricane and cyclone was extended to 168 consecutive hours from 120 consecutive hours.
3.
From July 1, 2014 through September 30, 2016, catastrophe treaty also covered losses caused by severe winter weather during any consecutive 28 day period.
4.
Effective July 1, 2015, reinstatement premium protection for $16,000,000 of catastrophe coverage in excess of $4,000,000. Effective July 1, 2016, reinstatement premium protection for $20,000,000 of catastrophe coverage in excess of $5,000,000.

The single maximum risks per occurrence to which the Company is subject under the new treaties effective July 1, 2016 are as follows:

	July 1, 2016 - June 30, 2017	
Treaty	Extent of Loss	Risk Retained
Personal Lines	Initial $833,333	$500,000
	$833,333 - $4,500,000	None(1)
	Over $4,500,000	100%
Personal Umbrella	Initial $1,000,000	$100,000
	$1,000,000 - $5,000,000	None(1)
	Over $5,000,000	100%
Commercial Lines	Initial $500,000	$500,000
	$500,000 - $4,500,000	None(1)
	Over $4,500,000	100%
Commercial Umbrella	Initial $1,000,000	$100,000
	$1,000,000 - $5,000,000	None(1)
	Over $5,000,000	100%
Catastrophe (2)	Initial $5,000,000	$3,000,000
	$5,000,000 - $252,000,000	None
	Over $252,000,000	100%

(1)
Covered by excess of loss treaties.

(2)
Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts.

The single maximum risks per occurrence to which the Company is subject under the treaties that expired on June 30, 2016 and 2015 are as follows:

	July 1, 2015 - June 30, 2016		July 1, 2014 - June 30, 2015	
Treaty	Extent of Loss	Risk Retained	Extent of Loss	Risk Retained
Personal Lines	Initial $750,000	$450,000	Initial $800,000	$360,000
	$750,000 - $4,500,000	None(1)	$800,000 - $4,000,000	None(1)
	Over $4,500,000	100%	Over $4,000,000	100%
Personal Umbrella	Initial $1,000,000	$100,000	Initial $1,000,000	$100,000
	$1,000,000 - $3,000,000	None(1)	$1,000,000 - $3,000,000	None(1)
	Over $3,000,000	100%	Over $3,000,000	100%
Commercial Lines	Initial $425,000	$425,000	Initial $400,000	$400,000
	$425,000 - $4,500,000	None(1)	$400,000 - $4,000,000	None(1)
	Over $4,500,000	100%	Over $4,000,000	100%
Commercial Auto	Initial $300,000	$300,000	Initial $300,000	$300,000
	$300,000 - $2,000,000	None(1)	$300,000 - $2,000,000	None(1)
	Over $2,000,000	100%	Over $2,000,000	100%
Catastrophe (2)	Initial $4,000,000	$2,400,000	Initial $4,000,000	$1,800,000
	$4,000,000 - $180,000,000	None	$4,000,000 - $141,000,000	None
	Over $180,000,000	100%	Over $141,000,000	100%

(1)
Covered by excess of loss treaties.

(2)
Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts.

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

Ceding Commission Revenue

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

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The Company’s estimated ultimate treaty year loss ratios (“Loss Ratio(s)”) for treaties in effect for the three months ended September 30, 2016 are attributable to contracts for the 2016/2017 Treaty and for the nine months ended September 30, 2016 are attributable to contracts for the 2016/2017 Treaty and 2015/2016 Treaty. The Company’s Loss Ratios for treaties in effect for the three months ended September 30, 2015 are attributable to contracts for the 2015/2016 Treaty and for the nine months ended September 30, 2015 are attributable to contracts for the 2015/2016 Treaty and 2014/2015 Treaty.

Treaties in effect for the three months and nine months ended September 30, 2016

Under the 2016/2017 Treaty and 2015/2016 Treaty, the Company is receiving a higher upfront fixed provisional rate in exchange for a less favorable sliding scale contingent rate. Under this arrangement, the Company earns more provisional ceding commissions, while contingent ceding commissions are reduced due to the less favorable sliding scale rate. The Company’s Loss Ratios for the period July 1, 2015 through June 30, 2016 (attributable to the 2015/2016 Treaty), and from July 1, 2016 through September 30, 2016 (attributable to the 2016/2017 Treaty), were higher than the contractual Loss Ratio at which provisional ceding commissions are earned. Accordingly, for the three month and nine month periods ended September 30, 2016, the Company’s contingent ceding commission earned was reduced as a result of the estimated Loss Ratios for the 2016/2017 Treaty and 2015/2016 Treaty, respectively.

Treaties in effect for the three months and nine months ended September 30, 2015

The Company’s Loss Ratio for the period July 1, 2015 through September 30, 2015, which is attributable to the 2015/2016 Treaty, was higher than the contractual Loss Ratio at which provisional ceding commissions are earned. Accordingly, for the three months ended September 30, 2015, the Company’s contingent ceding commission earned was reduced as a result of the estimated Loss Ratio for the 2015/2016 Treaty.

The Company’s Loss Ratio for the period July 1, 2014 through June 30, 2015, which is attributable to the 2014/2015 Treaty, was lower than the contractual Loss Ratio at which the provisional ceding commissions are earned. As a result of severe winter weather during the six months ended June 30, 2015, the Loss Ratio attributable to this treaty as of June 30, 2015 was greater than the Loss Ratio as of December 31, 2014. Accordingly, for the six months ended June 30, 2015, the Company’s contingent ceding commission earned was reduced as a result of the increase in the estimated Loss Ratio for the 2014/2015 Treaty.

In addition to the treaties that were in effect for the three months and nine months ended September 30, 2016 and 2015, the Loss Ratios from prior years’ treaties are subject to change as loss reserves from those periods increase or decrease, resulting in an increase or decrease in the commission rate and contingent ceding commissions earned.

Ceding commission revenue consists of the following:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Provisional ceding commissions earned	$3,185,748	$2,854,524	$9,508,213	$8,734,477
Contingent ceding commissions earned	(250,820)	(210,993)	(1,233,923)	653,980
	$2,934,928	$2,643,531	$8,274,290	$9,388,457

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.

Note 7 – Stockholders' Equity

Dividend Declared

Dividends declared and paid on Common Stock were $1,446,684 and $1,098,946 for the nine months ended September 30, 2016 and 2015, respectively. The Company's Board of Directors approved a quarterly dividend on November 9, 2016 of $.0625 per share payable in cash on December 15, 2016 to stockholders of record as of November 30, 2016 (see Note 12).

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, subject to stockholder approval on or before August 12, 2015, 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. The stockholders approved the 2014 Plan on August 11, 2015. 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 Stock Option 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.

The results of operations for the three months ended September 30, 2016 and 2015 include stock-based stock option compensation expense totaling approximately $23,000 and $52,000, respectively. The results of operations for the nine months ended September 30, 2016 and 2015 include stock-based stock option compensation expense totaling approximately $90,000 and $130,000, respectively. Stock-based compensation expense related to stock options is net of estimated forfeitures of 17% for the three months and nine months ended September 30, 2016 and 2015. Such

amounts have been included in the condensed consolidated statements of income and comprehensive income within other operating expenses.

Stock-based compensation expense in 2016 and 2015 is the estimated fair value of options granted amortized on a straight-line basis over the requisite service period for the entire portion of the award less an estimate for anticipated forfeitures. The Company uses the "simplified" method to estimate the expected term of the options because the Company's historical share option exercise experience does not provide a reasonable basis upon which to estimate expected term. The weighted average estimated fair value of stock options granted during the nine months ended September 30, 2016 was $1.87 per share. No options were granted during the nine months September 30, 2015. The fair value of stock options at the grant date was estimated using the Black-Scholes option-pricing model. The following weighted average assumptions were used for grants during the following periods:

	Nine months ended September 30, 2016	2015
Dividend Yield	2.74% - 3.18%	na
Volatility	31.61% - 31.81%	na
Risk-Free Interest Rate	1.01% - 1.11%	na
Expected Life	3.25 years	na

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

A summary of stock option activity under the Company’s 2014 Plan and 2005 Plan for the nine months ended September 30, 2016 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, 2016	339,750	$6.34	3.36	$904,775
Granted	40,000	$8.33		$36,150
Exercised	(2,500)	$5.09		$10,025
Forfeited	(5,000)	$5.09		$17,600
Outstanding at September 30, 2016	372,250	$6.58	2.82	$988,018
Vested and Exercisable at September 30, 2016	271,000	$6.38	2.60	$771,918

The aggregate intrinsic value of options outstanding and options exercisable at September 30, 2016 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 $9.23 closing price of the Company’s Common Stock on September 30, 2016. The total intrinsic value of options exercised in the nine months ended September 30, 2016 was $10,025, determined as of the date of exercise.

Participants in the 2005 and 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”). The Company received cash proceeds of $12,725 from the exercise of options for the purchase of 2,500 shares of Common Stock during the nine months ended

September 30, 2016. All of the 123,750 options exercised during the nine months ended September 30, 2015 were Net Exercises.

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As of September 30, 2016, the fair value of unamortized compensation cost related to unvested stock option awards was approximately $62,000. Unamortized compensation cost as of September 30, 2016 is expected to be recognized over a remaining weighted-average vesting period of 0.91 years.

As of September 30, 2016, there were 602,500 shares reserved for grants under the 2014 Plan.

Other Equity Compensation

In January 2016, the Company granted a total of 6,000 shares of restricted Common Stock under the 2014 Plan to its three then non-employee directors. In March 2016, the Company granted 1,500 shares of restricted Common Stock under the 2014 Plan to a newly elected non-employee director. One-third of the shares granted will vest on each of the three following anniversaries following the grant date. The fair value of the shares will be determined on each of the vesting dates. For the nine months ended September 30, 2016, no stock-based compensation for these grants is included in the condensed consolidated statements of income and comprehensive income.

Private Placement of Common Stock

In April 2016, the Company sold 595,238 newly issued shares of its Common Stock to RenaissanceRe Ventures Ltd., a subsidiary of RenaissanceRe Holdings Ltd. (NYSE:RNR) ("RenaissanceRe"), in a private placement. RenaissanceRe is a global provider of catastrophe and specialty reinsurance and insurance.

The new shares of Common Stock were sold to RenaissanceRe at a price of $8.40 per share. The Company received net proceeds of approximately $4,802,000 from the private placement. In June 2016, the Company invested $3,000,000 of the proceeds in KICO as additional surplus to support its continued growth. The Company intends to use the remaining net proceeds of the offering for general corporate purposes.

Note 8 – 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 condensed consolidated financial statements taken as a whole for the respective periods.

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

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

	September 30,	December 31,
	2016	2015
Deferred tax asset:		
Net operating loss carryovers (1)	$131,626	$150,492
Claims reserve discount	391,649	405,709
Unearned premium	2,861,352	2,555,012
Deferred ceding commission revenue	2,261,970	2,187,923
Other	124,786	151,250
Total deferred tax assets	5,771,383	5,450,386
Deferred tax liability:		
Investment in KICO (2)	1,169,000	1,169,000
Deferred acquisition costs	4,091,018	3,684,004
Intangibles	487,900	597,657
Depreciation and amortization	254,551	415,938
Net unrealized appreciation of securities - available for sale	884,826	255,977
Total deferred tax liabilities	6,887,295	6,122,576
Net deferred income tax liability	$(1,115,912)	$(672,190)

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

	September 30,	December 31,	
Type of NOL	2016	2015	Expiration
State only (A)	$616,366	$540,865	December 31, 2036
Valuation allowance	(494,940)	(403,973)	
State only, net of valuation allowance	121,426	136,892	
Amount subject to Annual Limitation, federal only (B)	10,200	13,600	December 31, 2019
Total deferred tax asset from net operating loss carryovers	$131,626	$150,492	

(A) Kingstone generates operating losses for state purposes and has prior year NOLs available. The state NOL as of September 30, 2016 and December 31, 2015 was approximately $9,483,000 and $8,321,000, 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 condensed consolidated statements of income and comprehensive income within other underwriting expenses. A valuation allowance has been recorded due to the uncertainty of generating enough state taxable income to utilize 100% of the available state NOLs over their remaining lives, which expire between 2027 and 2036.

(B) The Company has an NOL of $30,000 that is subject to Internal Revenue Code Section 382, which places a limitation on the utilization of the federal NOL loss to approximately $10,000 per year ("Annual Limitation") as a result of a greater than 50% ownership change of the Company in 1999. The losses subject to the Annual Limitation will be available for future years, expiring through December 31, 2019.

(2)
Deferred tax liability – investment in KICO

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

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

The Company had no material unrecognized tax benefit and no adjustments to liabilities or operations were required. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the nine months ended September 30, 2016 and 2015. If any had been recognized these would have been reported in income tax expense.

The tax returns for years ended December 31, 2013 through 2015 are subject to examination, generally for three years after filing.

Note 9 – Earnings Per Common Share

Basic net earnings per common share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per common share reflect, in periods in which they have a dilutive effect, the impact of common shares issuable upon exercise of stock options. The computation of diluted earnings 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.

For the three months ended September 30, 2016 and 2015, the inclusion of 27,500 and 50,000 options, respectively, in the computation of diluted earnings per common share would have been anti-dilutive for the periods and, as a result, the weighted average number of common shares used in the calculation of diluted earnings per common share has not been adjusted for the effect of such options. The computation of diluted earnings per common share excludes outstanding options in periods where the exercise of such options would be anti-dilutive. For the nine months ended September 30, 2016 and 2015, the inclusion of 22,664 and 50,000 options, respectively, in the computation of diluted earnings per common share would have been anti-dilutive for the periods and, as a result, the weighted average number of common shares used in the calculation of diluted earnings per common share has not been adjusted for the effect of such options.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Weighted average number of shares outstanding	7,911,353	7,334,269	7,676,887	7,330,178
Effect of dilutive securities, common share equivalents	61,572	47,357	52,825	37,536
Weighted average number of shares outstanding, used for computing diluted earnings per share	7,972,925	7,381,626	7,729,712	7,367,714

Note 10 - 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 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. The Company is not subject to any other pending legal proceedings that management believes are likely to have a material adverse effect on the condensed consolidated financial statements.

Office Lease

In June 2016, the Company entered into a lease modification agreement for its office facility for KICO located in Valley Stream, NY under a non-cancelable operating lease dated March 27, 2015. The original lease had a term of seven years and nine months. The lease modification increased the space occupied by KICO and extended the lease term to seven years and nine months to be measured from the additional premises commencement date. The additional premises commencement date was September 19, 2016, and additional rent will be payable beginning March 19, 2017. The original lease commencement date was July 1, 2015 and rent commencement began January 1, 2016.

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. Rent expense under the lease will be recognized on a straight-line basis over the lease term. At September 30, 2016, cumulative rent expense exceeded cumulative rent payments by $55,067. This difference is recorded as deferred rent and is included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets.

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As of September 30, 2016, aggregate future minimum rental commitments under the Company's modified lease agreement are as follows:

For the Year Ending December 31,	Total
2016 (three months)	$25,188
2017	146,008
2018	164,117
2019	169,861
2020	175,806
Thereafter	614,351
Total	$1,295,331

Rent expense for the three months and nine months ended September 30, 2016 amounted to $26,126 and $78,377, respectively, and is included in the condensed consolidated statements of income and comprehensive income within other underwriting expenses.

Note 11 – Premium Finance Placement Fees

The Company's wholly owned subsidiary, Payments Inc. ("Payments"), is licensed as a premium finance agency in the state of New York. Prior to February 1, 2008, Payments provided premium financing in connection with the obtaining of insurance policies. Effective February 1, 2008, Payments sold its outstanding premium finance loan portfolio. The purchaser of the portfolio (the "Purchaser") agreed that, during the five year period ended February 1, 2013 (which period was extended to February 1, 2015), it would purchase, assume and service all eligible premium finance contracts originated by Payments in the state of New York (the "Agreement"). In connection with such purchases, Payments was entitled to receive a fee generally equal to a percentage of the amount financed.

In July 2014, the Purchaser terminated the Agreement effective February 1, 2015. Following any expiration or termination of the obligation of the Purchaser to purchase premium finance contracts, Payments was entitled to receive the fees for an additional two years ("Termination Period") with regard to contracts for policies from the Company's producers. On March 26, 2015, the Company and the Purchaser agreed to amend the Termination Period to end as of March 31, 2015. The Company received a one-time payment of $350,000 in exchange for the fees that the Company would have received during the Termination Period. The Company's premium financing business consisted of the placement fees that Payments earned from placing contracts.

Placement fee revenue included in other income and the related direct expenses included in other operating expenses in the condensed consolidated statements of net income and comprehensive income are as follows (unaudited):

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Placement fee revenue	$-	$-	$-	$54,343
Early termination fee	-	-	-	350,000
Direct expenses	-	-	-	(12,989)
Net income before taxes from placement fees	$-	$-	$-	$391,354

Note 12 – Subsequent Events

The Company has evaluated events that occurred subsequent to September 30, 2016 through the date these condensed consolidated financial statements were issued for matters that required disclosure or adjustment in these condensed consolidated financial statements.

Dividends Declared and Paid

On November 9, 2016, the Company’s Board of Directors approved a quarterly dividend of $.0625 per share payable in cash on December 15, 2016 to stockholders of record as of November 30, 2016.

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

Overview

We offer property and casualty insurance products to individuals and small businesses in New York State 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. We are also licensed in the States of New Jersey, Connecticut, Pennsylvania, Rhode Island and Texas. In October 2016, we submitted a rate filing with the State of New Jersey, and anticipate writing business in early 2017.

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 for a one year period. 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 normally elapses between the receipt of insurance premiums and 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 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 commonly referred to as claims. In settling these claims for losses, various loss adjustment expenses ("LAE") are incurred such as insurance adjusters' fees and litigation 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. These expenses include legal and auditing fees, executive employment costs, and other costs directly associated with being a public company.

Product Lines

Our product lines include the following:

Personal lines: Our largest line of business is personal lines, consisting of homeowners, dwelling fire, 3-4 family dwelling package, cooperative and condominium, renters, equipment breakdown and service line endorsements, and personal umbrella policies.

Commercial liability: We offer business owners policies, which consist primarily of small business retail, service, and office risks without a residential exposure. We also write artisan's liability policies for small independent contractors with seven or fewer employees. In addition, we write special multi-peril policies for larger and more specialized business owners' risks, including those with limited residential exposures.

Commercial automobile: Until recently we provided liability and physical damage coverage for light vehicles owned by small contractors and artisans. However, due to the poor performance of this line, effective October 1, 2014, we decided to no longer accept new commercial auto policies. In February 2015, we decided to no longer offer renewals to our existing commercial auto policies beginning with those that expired on or after May 1, 2015. As of April 30, 2016 we have no commercial auto policies in force and the 41 open claims as of September 30, 2016 related to this product line will be run-off over time.

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 also 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 loss adjustment expenses ("LAE") incurred to net premiums earned.

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

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

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

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements include the accounts of Kingstone Companies, Inc. and all majority-owned and controlled subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make estimates and assumptions in certain circumstances that affect amounts reported in our consolidated financial statements and related notes. In

preparing these condensed consolidated financial statements, our management has utilized information available including our past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments of certain amounts included in the consolidated financial statements, giving due consideration to materiality. It is possible that the ultimate outcome as anticipated by our management in formulating its estimates inherent in these financial statements might not materialize. However, 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 companies in similar businesses.

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

Consolidated Results of Operations

Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

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

	Nine months ended September 30,			
($ in thousands)	2016	2015	Change	Percent
Revenues				
Direct written premiums	$76,375	$67,226	$9,149	13.6%
Assumed written premiums	15	35	(20)	(57.1) %
	76,390	67,261	9,129	13.6%
Ceded written premiums				
Ceded to quota share treaties in force during the period	19,463	22,427	(2,964)	(13.2) %
Return of premiums previously ceded to prior quota share treaties (1)	-	(5,866)	5,866	(100.0) %
Ceded to quota share treaties	19,463	16,561	2,902	17.5%
Ceded to excess of loss treaties				