

KINGSTONE COMPANIES, INC.  
Form 10-Q/A  
November 08, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q/A  
(Amendment No. 1)

(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, 2018  
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 (I.R.S. Employer  
incorporation or organization) 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 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

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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 November 8, 2018, there were 10,743,373 shares of the registrant's common stock outstanding.



AMENDMENT NO. 1 TO THE QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTER ENDED SETEMBER 30, 2018

EXPLANATORY NOTE

The purpose of this Amendment No. 1 to our Quarterly Report on Form 10-Q for the period ended September 30, 2018 as filed with the Securities and Exchange Commission on November 8, 2018 is to furnish the addition of the Exhibits 101 to the Form 10-Q.

No changes have been made to the Quarterly Report other than the addition of the Exhibits 101 as described above. This Amendment No. 1 to Form 10-Q does not reflect or modify or update in any way disclosures made in the Form 10-Q, as amended.

In addition, pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as a result of this Amended Report, the certifications pursuant to Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, filed and furnished, respectively as exhibits to the Original Report have been re-executed and re-filed as of the date of this Amended Report and are included as exhibits hereto.



KINGSTONE COMPANIES, INC.  
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## Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally, these statements relate to business plans or strategies, projected or anticipated 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 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 Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017 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.





## PART I. FINANCIAL INFORMATION

## Item 1.

## Financial Statements.

## KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

|  | September 30, | December 31,  |
|--|---------------|---------------|
|  | 2018          | 2017          |
|  | (unaudited)   |               |
| Assets   |               |               |
| Fixed-maturity securities, held-to-maturity, at amortized cost (fair value of    |               |               |
| \$4,410,764 at September 30, 2018 and \$5,150,076 at December 31, 2017)          | \$4,222,352   | \$4,869,808   |
| Fixed-maturity securities, available-for-sale, at fair value (amortized cost of  |               |               |
| \$144,572,834 at September 30, 2018 and \$119,122,106 at December 31, 2017)      | 141,360,535   | 119,988,256   |
| Equity securities, at fair value (cost of \$18,494,309 at September 30, 2018 and |               |               |
| \$13,761,841 at December 31, 2017)   | 18,876,690    | 14,286,198    |
| Other investments  | 2,241,444     | -             |
| Total investments  | 166,701,021   | 139,144,262   |
| Cash and cash equivalents  | 29,893,676    | 48,381,633    |
| Investment subscription receivable   | -             | 2,000,000     |
| Premiums receivable, net   | 13,484,547    | 13,217,698    |
| Reinsurance receivables, net   | 25,018,461    | 28,519,130    |
| Deferred policy acquisition costs  | 17,123,248    | 14,847,236    |
| Intangible assets, net   | 755,000       | 1,010,000     |
| Property and equipment, net  | 5,798,042     | 4,772,577     |
| Deferred income taxes  | 122,003       | -             |
| Other assets   | 4,476,703     | 2,655,527     |
| Total assets   | \$263,372,701 | \$254,548,063 |
| Liabilities  |               |               |
| Loss and loss adjustment expense reserves  | \$53,942,957  | \$48,799,622  |
| Unearned premiums  | 75,574,404    | 65,647,663    |
| Advance premiums   | 2,888,720     | 1,477,693     |
| Reinsurance balances payable   | 1,723,844     | 2,563,966     |
| Deferred ceding commission revenue   | 2,517,468     | 4,266,412     |
| Accounts payable, accrued expenses and other liabilities                         | 6,108,345     | 7,487,654     |

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|  |               |               |
|--|---------------|---------------|
| Deferred income taxes  | -             | 600,342       |
| Long-term debt, net  | 29,251,206    | 29,126,965    |
| Total liabilities  | 172,006,944   | 159,970,317   |
| 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 11,729,166 shares<br>at September 30, 2018 and 11,618,646 at December 31, 2017; outstanding<br>10,701,727 shares at September 30, 2018 and 10,631,837 shares at December 31,<br>2017 | 117,291       | 116,186       |
| Capital in excess of par   | 68,220,714    | 68,380,390    |
| Accumulated other comprehensive (loss) income  | (2,595,040)   | 1,100,647     |
| Retained earnings  | 28,335,344    | 27,152,822    |
|  | 94,078,309    | 96,750,045    |
| Treasury stock, at cost, 1,027,439 shares at September 30, 2018<br>and 986,809 shares at December 31, 2017   | (2,712,552)   | (2,172,299)   |
| Total stockholders' equity   | 91,365,757    | 94,577,746    |
| Total liabilities and stockholders' equity   | \$263,372,701 | \$254,548,063 |

See accompanying notes to condensed consolidated financial statements.



## 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, |              |
|--|---------------|--------------|---------------|--------------|
|  | 2018          | 2017         | 2018          | 2017         |
| <b>Revenues</b>  |               |              |               |              |
| Net premiums earned  | \$27,533,907  | \$21,514,408 | \$74,476,138  | \$54,837,883 |
| Ceding commission revenue  | 1,044,529     | 1,717,610    | 4,430,855     | 8,208,000    |
| Net investment income  | 1,602,371     | 1,033,307    | 4,543,226     | 2,917,111    |
| Net gains (losses) on investments  | 352,025       | 20,998       | (277,835)     | 96,915       |
| Other income   | 353,077       | 328,330      | 961,581       | 926,189      |
| Total revenues   | 30,885,909    | 24,614,653   | 84,133,965    | 66,986,098   |
| <b>Expenses</b>  |               |              |               |              |
| Loss and loss adjustment expenses  | 13,296,708    | 7,073,323    | 41,739,123    | 22,821,241   |
| Commission expense   | 6,594,323     | 5,500,483    | 18,411,460    | 15,491,027   |
| Other underwriting expenses  | 5,193,679     | 4,475,455    | 15,301,168    | 12,887,488   |
| Other operating expenses   | 683,309       | 1,069,005    | 1,773,983     | 2,731,499    |
| Depreciation and amortization  | 440,383       | 378,518      | 1,273,975     | 1,023,390    |
| Interest expense   | 456,545       | -            | 1,365,052     | -            |
| Total expenses   | 26,664,947    | 18,496,784   | 79,864,761    | 54,954,645   |
| Income from operations before taxes  | 4,220,962     | 6,117,869    | 4,269,204     | 12,031,453   |
| Income tax expense   | 287,232       | 2,043,948    | 296,111       | 3,976,560    |
| Net income   | 3,933,730     | 4,073,921    | 3,973,093     | 8,054,893    |
| <b>Other comprehensive (loss) income, net of tax</b>                               |               |              |               |              |
| Gross change in unrealized (losses) gains on available-for-sale-securities         | (242,453)     | 499,077      | (4,591,699)   | 1,974,946    |
| <b>Reclassification adjustment for losses (gains) included in net income</b>       |               |              |               |              |
| Net change in unrealized (losses) gains  | 131,978       | (20,998)     | 451,877       | (96,915)     |
| Income tax benefit (expense) related to items of other comprehensive (loss) income | (110,475)     | 478,079      | (4,139,822)   | 1,878,031    |
|  | 12,416        | (162,547)    | 858,377       | (638,531)    |

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|   |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
| Other comprehensive (loss) income, net of tax | (98,059)    | 315,532     | (3,281,445) | 1,239,500   |
| Comprehensive income                          | \$3,835,671 | \$4,389,453 | \$691,648   | \$9,294,393 |
| Earnings per common share:                    |             |             |             |             |
| Basic   | \$0.37      | \$0.38      | \$0.37      | \$0.78      |
| Diluted                                       | \$0.36      | \$0.38      | \$0.37      | \$0.77      |
| Weighted average common shares outstanding    |             |             |             |             |
| Basic   | 10,681,329  | 10,626,242  | 10,672,084  | 10,307,689  |
| Diluted                                       | 10,791,123  | 10,832,739  | 10,780,590  | 10,500,272  |
| Dividends declared and paid per common share  | \$0.1000    | \$0.0800    | \$0.3000    | \$0.2225    |

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, 2018

|  | Preferred Stock |        | Common Stock |           | Capital<br>in Excess<br>of Par | Accumulated                    |                      | Treasury Stock |            |
|--|-----------------|--------|--------------|-----------|--------------------------------|--------------------------------|----------------------|----------------|------------|
|  | Shares          | Amount | Shares       | Amount    |                                | Comprehensive<br>Income (Loss) | Retained<br>Earnings | Shares         | Amount     |
|  |                 |        |              |           |                                |                                |                      |                |            |
| Balance,<br>January 1,<br>2018, as<br>reported   | -               | \$-    | 11,618,646   | \$116,186 | \$68,380,390                   | \$1,100,647                    | \$27,152,822         | 986,809        | \$(2,172,2 |
| Cumulative<br>effect of<br>adoption of<br>updated<br>accounting<br>guidance for<br>equity<br>financial<br>instruments at<br>January 1,<br>2018 | -               | -      | -            | -         | -                              | (414,242)                      | 414,242              | -              | -          |
| Balance,<br>January 1,<br>2018, as<br>adjusted   | -               | -      | 11,618,646   | 116,186   | 68,380,390                     | 686,405                        | 27,567,064           | 986,809        | (2,172,2   |
| Stock-based<br>compensation<br>Shares<br>deducted from<br>exercise of<br>stock   | -               | -      | -            | -         | 481,812                        | -                              | -                    | -              | -          |
|  | -               | -      | (33,891)     | (337)     | (674,314)                      | -                              | -                    | -              | -          |



|   |   |     |            |           |              |               |              |           |               |
|---|---|-----|------------|-----------|--------------|---------------|--------------|-----------|---------------|
| options for payment of withholding taxes                                      |   |     |            |           |              |               |              |           |               |
| Vesting of restricted stock awards  | - | -   | 15,752     | 155       | (155)        | -             | -            | -         | -             |
| Shares deducted from restricted stock awards for payment of withholding taxes | - | -   | (2,213)    | (24)      | (39,847)     | -             | -            | -         | -             |
| Exercise of stock options   | - | -   | 130,872    | 1,311     | 72,828       | -             | -            | -         | -             |
| Acquisition of treasury stock   | - | -   | -          | -         | -            | -             | -            | 40,630    | (540,253)     |
| Dividends   | - | -   | -          | -         | -            | -             | (3,204,813)  | -         | -             |
| Net income  | - | -   | -          | -         | -            | -             | 3,973,093    | -         | -             |
| Change in unrealized losses on available-for-sale securities, net of tax      | - | -   | -          | -         | -            | (3,281,445)   | -            | -         | -             |
| Balance, September 30, 2018   | - | \$- | 11,729,166 | \$117,291 | \$68,220,714 | \$(2,595,040) | \$28,335,344 | 1,027,439 | \$(2,712,500) |

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,   | 2018         | 2017         |
|---|--------------|--------------|
| Cash flows from operating activities:   |              |              |
| Net income  | \$3,973,093  | \$8,054,893  |
| Adjustments to reconcile net income to net cash flows provided by operating activities: |              |              |
| Net losses (gains) on investments   | 277,835      | (96,915)     |
| Depreciation and amortization   | 1,273,975    | 1,023,390    |
| Amortization of bond premium, net   | 284,204      | 405,832      |
| Amortization of discount and issuance costs on long-term debt                           | 124,241      | -            |
| Stock-based compensation  | 481,812      | 198,046      |
| Deferred income tax expense   | 136,032      | 322,608      |
| (Increase) decrease in operating assets:  |              |              |
| Premiums receivable, net  | (266,849)    | (1,745,402)  |
| Reinsurance receivables, net  | 3,500,669    | 7,226,493    |
| Deferred policy acquisition costs   | (2,276,012)  | (2,142,195)  |
| Other assets  | (1,824,401)  | (219,189)    |
| Increase (decrease) in operating liabilities:   |              |              |
| Loss and loss adjustment expense reserves   | 5,143,335    | 554,078      |
| Unearned premiums   | 9,926,741    | 8,448,528    |
| Advance premiums  | 1,411,027    | 665,029      |
| Reinsurance balances payable  | (840,122)    | (333,669)    |
| Deferred ceding commission revenue  | (1,748,944)  | (2,898,092)  |
| Accounts payable, accrued expenses and other liabilities                                | (1,379,309)  | 1,426,188    |
| Net cash flows provided by operating activities   | 18,197,327   | 20,889,623   |
| Cash flows from investing activities:   |              |              |
| Purchase - fixed-maturity securities available-for-sale                                 | (43,957,529) | (38,612,403) |
| Purchase - equity securities  | (10,357,210) | (5,298,781)  |
| Sale and redemption - fixed-maturity securities held-to-maturity                        | 624,963      | 200,000      |
| Sale or maturity - fixed-maturity securities available-for-sale                         | 17,740,260   | 8,385,874    |
| Sale - equity securities  | 5,694,121    | 2,571,122    |
| Acquisition of property and equipment   | (2,044,440)  | (1,944,342)  |
| Net cash flows used in investing activities   | (32,299,835) | (34,698,530) |
| Cash flows from financing activities:   |              |              |
| Net proceeds from issuance of common stock  | -            | 30,136,699   |
| Proceeds from exercise of stock options   | 74,139       | 66,517       |
| Withholding taxes paid on net exercise of stock options                                 | (674,651)    | -            |
| Withholding taxes paid on vested restricted stock awards                                | (39,871)     | (17,693)     |

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|   |                |              |
|---|----------------|--------------|
| Purchase of treasury stock                                | (540,253)      | (176,837)    |
| Dividends paid  | (3,204,813)    | (2,363,993)  |
| Net cash flows (used in) provided by financing activities | (4,385,449)    | 27,644,693   |
| <br>  |                |              |
| (Decrease) increase in cash and cash equivalents          | \$(18,487,957) | \$13,835,786 |
| Cash and cash equivalents, beginning of period            | 48,381,633     | 12,044,520   |
| Cash and cash equivalents, end of period                  | \$29,893,676   | \$25,880,306 |
| <br>  |                |              |
| Supplemental disclosures of cash flow information:        |                |              |
| Cash paid for income taxes                                | \$1,250,000    | \$3,936,000  |
| Cash paid for interest                                    | \$875,417      | \$-          |

See accompanying notes to condensed consolidated financial statements.



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

Note 1 - Nature of Business and Basis of Presentation

Kingstone Companies, Inc. (referred to herein as "Kingstone" or the "Company"), through its wholly owned subsidiary, Kingstone Insurance Company ("KICO"), underwrites property and casualty insurance to small businesses and individuals exclusively through independent agents and brokers. KICO is a licensed insurance company in the States of New York, New Jersey, Rhode Island, Massachusetts, Pennsylvania, Connecticut, Maine, New Hampshire and Texas. KICO is currently offering its property and casualty insurance products in New York, New Jersey, Rhode Island, Massachusetts and Pennsylvania. Although New Jersey, Rhode Island and Massachusetts are now growing expansion markets for the Company, 92.6% and 94.5% of KICO's direct written premiums for the three months and nine months ended September 30, 2018, respectively, came from the New York policies.

The accompanying unaudited condensed consolidated financial statements 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 10 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 consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended December 31, 2017 and notes thereto included in the Company's Annual Report on Form 10-K filed with the SEC on March 15, 2018. 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 three months and nine months ended September 30, 2018 may not be indicative of the results that may be expected for the year ending December 31, 2018.

Note 2 – Accounting Policies

Use of Estimates

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



## Principles of Consolidation

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

## Accounting Changes

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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. ASU 2014-09, as amended by ASU 2015-14, ASU 2016-08, ASU 2016-10 and ASU 2016-20, was effective for the Company for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. 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 condensed consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“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 (“AOCI”) by the same amount. The Company elected to report changes in the fair value of equity investments in net gains (losses) on investments in the condensed consolidated statements of income and comprehensive income. At December 31, 2017, equity investments were classified as available-for-sale on the Company’s consolidated balance sheet. However, upon adoption, the updated guidance eliminated the available-for-sale balance sheet classification for equity investments. Furthermore, for the three months and nine months ended September 30, 2018, net gain (loss) on investments of approximately \$352,000 and (\$278,000), respectively, in the condensed consolidated statements of income and comprehensive income included gains of approximately \$409,000 and \$99,000, respectively, from the fair value change of equity securities.

In August 2016, 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. FASB issued the standard to clarify areas where GAAP has been either unclear or lacking in specific guidance. The effective date of ASU 2016-15 was for interim and annual reporting periods beginning after December 15, 2017. The Company adopted this ASU effective January 1, 2018, and it did not have a material impact on the Company’s condensed 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 amendment should be applied on a prospective basis. The effective date of ASU 2017-09 was for interim and annual reporting periods, beginning after December 15, 2017. The Company adopted this ASU effective January 1, 2018 and it did not have a material impact on the Company’s condensed consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02 - Income Statement – Reporting Comprehensive Income (Topic 220) – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (“ASU 2018-02”). The deferred income tax liability for unrealized gains on available-for-sale securities that were re-measured due to the reduction in corporate income tax rates under the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) resulted in a stranded tax effect within AOCI. This is due to the effect of the tax rate change being recorded through continuing operations as required under Accounting Standards Codification 740 (“ASC 740”). The revised ASU allows for the reclassification of the stranded tax effects as a result of the Act from AOCI to retained earnings and requires certain other disclosures. Effective December 31, 2017, the Company chose to early adopt the provisions of ASU 2018-02 and recorded a one-time reclassification of \$182,912 from AOCI to retained earnings for the stranded tax effects resulting from the newly enacted corporate tax rate. The amount of the reclassification was the difference between the historical corporate tax rate and the newly enacted 21% corporate tax rate.

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, “Disclosure Update and Simplification,” amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders’ equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders’ equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule is effective on November 5, 2018. The Company is evaluating the impact of this guidance on its condensed consolidated financial statements. The Company anticipates its first presentation of changes in stockholders’ equity will be included in its Form 10-Q for the quarter ended March 31, 2019.

#### Accounting Pronouncements

In February 2016, FASB issued ASU 2016-02 – Leases (Topic 842) (“ASU 2016-02”). 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 interim and annual reporting periods beginning after December 15, 2018. The Company does not expect the adoption of ASU 2016-02 to 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 (“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 on January 1, 2020. The Company is currently evaluating the effect the updated guidance will have on its consolidated financial statements.



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

Note 3 - Investments

Fixed-Maturity Securities

The amortized cost, fair value, and unrealized gains and losses of investments in fixed-maturity securities classified as available-for-sale as of September 30, 2018 and December 31, 2017 are summarized as follows:

September 30, 2018

| Category  | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross Unrealized Losses |                        | Fair<br>Value | Net                |
|---|------------------------------|------------------------------|-------------------------|------------------------|---------------|--------------------|
|   |                              |                              | Less than 12<br>Months  | More than 12<br>Months |               | Unrealized         |
|   |                              |                              |                         |                        |               | Gains/<br>(Losses) |
| Fixed-Maturity Securities:  |                              |                              |                         |                        |               |                    |
| U.S. Treasury securities<br>and<br>obligations of U.S.<br>government<br>corporations and agencies | \$8,214,959                  | \$-                          | \$(75,222)              | \$-                    | \$8,139,737   | \$(75,222)         |
| Political subdivisions of<br>States,<br>Territories and<br>Possessions                            | 6,545,242                    | 26,468                       | (63,596)                | (50,343)               | 6,457,771     | (87,471)           |
| Corporate and other bonds<br>Industrial and<br>miscellaneous                                      | 106,538,272                  | 87,788                       | (2,461,966)             | (399,360)              | 103,764,734   | (2,773,538)        |

Residential mortgage and  
other

|                             |               |           |               |             |               |               |
|-----------------------------|---------------|-----------|---------------|-------------|---------------|---------------|
| asset backed securities (1) | 23,274,361    | 288,079   | (99,954)      | (464,193)   | 22,998,293    | (276,068)     |
| Total                       | \$144,572,834 | \$402,335 | \$(2,700,738) | \$(913,896) | \$141,360,535 | \$(3,212,299) |

(1)

In 2017, KICO placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its membership in the Federal Home Loan Bank of New York ("FHLB NY") (See Note 7). The eligible collateral would be pledged to FHLB NY if KICO draws an advance from the FHLB NY credit line. As of September 30, 2018, the fair value of the eligible investments was approximately \$5,790,000. KICO will retain all rights regarding all securities if pledged as collateral. As of September 30, 2018, there was no outstanding balance on the FHLB NY credit line.





December 31, 2017

| Category  |               |             |                         |              |               | Net        |
|---|---------------|-------------|-------------------------|--------------|---------------|------------|
|   | Cost or       | Gross       | Gross Unrealized Losses |              |               | Unrealized |
|   | Amortized     | Unrealized  | Less than 12            | More than 12 | Fair          | Gains/     |
|   | Cost          | Gains       | Months                  | Months       | Value         | (Losses)   |
| Fixed-Maturity Securities:  |               |             |                         |              |               |            |
| U.S. Treasury securities<br>and<br>obligations of U.S.<br>government<br>corporations and agencies | \$-           | \$-         | \$-                     | \$-          | \$-           | \$-        |
| Political subdivisions of<br>States,<br>Territories and Possessions                               | 11,096,122    | 250,135     | (30,814)                | -            | 11,315,443    | 219,321    |
| Corporate and other bonds<br>Industrial and<br>miscellaneous                                      | 87,562,631    | 1,189,207   | (269,857)               | (340,516)    | 88,141,465    | 578,834    |
| Residential mortgage and<br>other<br>asset backed securities (1)                                  | 20,463,353    | 305,499     | (48,482)                | (189,022)    | 20,531,348    | 67,995     |
| Total   | \$119,122,106 | \$1,744,841 | \$(349,153)             | \$(529,538)  | \$119,988,256 | \$866,150  |

(1)

In 2017, KICO placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its membership in the FHLB NY (see Note 7). The eligible collateral would be pledged to FHLB NY if KICO draws an advance from the FHLB NY credit line. As of December 31, 2017, the fair value of the eligible investments was approximately \$6,703,000. KICO will retain all rights regarding all securities if pledged as collateral. As of December 31, 2017, there was no outstanding balance on the FHLB NY credit line.

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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, 2018 and December 31, 2017 is shown below:

| Remaining Time to Maturity                             | September 30, 2018 |               | December 31, 2017 |               |
|--|--------------------|---------------|-------------------|---------------|
|  | Amortized          |               | Amortized         |               |
|  | Cost               | Fair Value    | Cost              | Fair Value    |
| Less than one year                                     | \$1,689,356        | \$1,683,350   | \$2,585,479       | \$2,595,938   |
| One to five years                                      | 39,607,252         | 39,173,793    | 31,716,345        | 32,065,197    |
| Five to ten years                                      | 77,027,918         | 74,706,819    | 62,702,945        | 63,129,543    |
| More than 10 years                                     | 2,973,947          | 2,798,280     | 1,653,984         | 1,666,230     |
| Residential mortgage and other asset backed securities | 23,274,361         | 22,998,293    | 20,463,353        | 20,531,348    |
| Total  | \$144,572,834      | \$141,360,535 | \$119,122,106     | \$119,988,256 |

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

Effective January 1, 2018, the Company adopted ASU 2016-01, which resulted in changes in the fair value of equity securities held at September 30, 2018 being reported in net income instead of being reported in comprehensive income. See Note 2, Accounting Policies, for additional discussion. The cost, fair value, and gross gains and losses of investments in equity securities as of September 30, 2018 and December 31, 2017 are as follows:

## September 30, 2018

| Category                                       | Cost         | Gross       | Gross       | Fair         |
|--|--------------|-------------|-------------|--------------|
|  |              | Gains       | Losses      | Value        |
| Equity Securities:                             |              |             |             |              |
| Preferred stocks                               | \$6,865,381  | \$20,121    | \$(188,302) | \$6,697,200  |
| Common stocks and exchange traded mutual funds | 11,628,928   | 1,131,212   | (580,650)   | 12,179,490   |
| Total  | \$18,494,309 | \$1,151,333 | \$(768,952) | \$18,876,690 |

## December 31, 2017

| Category                                       | Cost         | Gross     | Gross       | Fair         |
|--|--------------|-----------|-------------|--------------|
|  |              | Gains     | Losses      | Value        |
| Equity Securities:                             |              |           |             |              |
| Preferred stocks                               | \$7,081,099  | \$60,867  | \$(141,025) | \$7,000,941  |
| Common stocks and exchange traded mutual funds | 6,680,742    | 841,250   | (236,735)   | 7,285,257    |
| Total  | \$13,761,841 | \$902,117 | \$(377,760) | \$14,286,198 |

## Other Investments

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The cost, fair value, and gross gains of the Company's other investments as of September 30, 2018 and December 31, 2017 are as follows:

| Category | September 30, 2018 |             |            | December 31, 2017 |             |            |
|----------|--------------------|-------------|------------|-------------------|-------------|------------|
|          | Cost               | Gross Gains | Fair Value | Cost              | Gross Gains | Fair Value |

Other Investments:

|            |             |           |             |     |     |     |
|------------|-------------|-----------|-------------|-----|-----|-----|
| Hedge fund | \$2,000,000 | \$241,444 | \$2,241,444 | \$- | \$- | \$- |
| Total      | \$2,000,000 | \$241,444 | \$2,241,444 | \$- | \$- | \$- |



## Held-to-Maturity Securities

The amortized cost, fair value, and unrealized gains and losses of investments in held-to-maturity fixed-maturity securities as of September 30, 2018 and December 31, 2017 are summarized as follows:

September 30, 2018

| Category  | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses |                     | Fair Value  | Net Unrealized Gains/(Losses) |
|---|------------------------|------------------------|-------------------------|---------------------|-------------|-------------------------------|
|   |                        |                        | Less than 12 Months     | More than 12 Months |             |                               |
| Held-to-Maturity Securities:                                  |                        |                        |                         |                     |             |                               |
| U.S. Treasury securities                                      | \$729,496              | \$147,543              | \$(7,649)               | \$-                 | \$869,390   | \$139,894                     |
| Political subdivisions of States, Territories and Possessions | 998,852                | 24,393                 | -                       | -                   | 1,023,245   | 24,393                        |
| Corporate and other bonds Industrial and miscellaneous        | 2,494,004              | 36,835                 | (5,100)                 | (7,610)             | 2,518,129   | 24,125                        |
| Total   | \$4,222,352            | \$208,771              | \$(12,749)              | \$(7,610)           | \$4,410,764 | \$188,412                     |

December 31, 2017

Gross Unrealized Losses

| Category  | Cost or Amortized Gross Unrealized |           | Less      | More      | Fair        | Net            |
|---|------------------------------------|-----------|-----------|-----------|-------------|----------------|
|   | Cost                               | Gains     | than 12   | than 12   |             | Unrealized     |
|   | Cost                               | Gains     | Months    | Months    | Value       | Gains/(Losses) |
| Held-to-Maturity Securities:                                  |                                    |           |           |           |             |                |
| U.S. Treasury securities                                      | \$729,466                          | \$147,573 | \$(1,729) | \$-       | \$875,310   | \$145,844      |
| Political subdivisions of States, Territories and Possessions | 998,984                            | 50,366    | -         | -         | 1,049,350   | 50,366         |
| Corporate and other bonds Industrial and miscellaneous        | 3,141,358                          | 90,358    | -         | (6,300)   | 3,225,416   | 84,058         |
| Total   | \$4,869,808                        | \$288,297 | \$(1,729) | \$(6,300) | \$5,150,076 | \$280,268      |

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





A summary of the amortized cost and fair value of the Company's investments in held-to-maturity securities by contractual maturity as of September 30, 2018 and December 31, 2017 is shown below:

| Remaining Time to Maturity | September 30, 2018 |             | December 31, 2017 |             |
|----------------------------|--------------------|-------------|-------------------|-------------|
|                            | Amortized Cost     | Fair Value  | Amortized Cost    | Fair Value  |
| Less than one year         | \$-                | \$-         | \$-               | \$-         |
| One to five years          | 2,996,308          | 3,030,709   | 2,546,459         | 2,601,898   |
| Five to ten years          | 619,548            | 626,016     | 1,716,884         | 1,794,139   |
| More than 10 years         | 606,496            | 754,039     | 606,465           | 754,039     |
| Total                      | \$4,222,352        | \$4,410,764 | \$4,869,808       | \$5,150,076 |

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

#### Investment Income

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

|                           | Three months ended |                    | Nine months ended  |                    |
|---------------------------|--------------------|--------------------|--------------------|--------------------|
|                           | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Income:                   |                    |                    |                    |                    |
| Fixed-maturity securities | \$1,386,931        | \$926,170          | \$3,898,730        | \$2,607,166        |
| Equity securities         | 214,498            | 143,826            | 609,086            | 408,812            |
| Cash and cash equivalents | 44,024             | 5,772              | 159,865            | 14,446             |
| Total                     | 1,645,453          | 1,075,768          | 4,667,681          | 3,030,424          |
| Expenses:                 |                    |                    |                    |                    |
| Investment expenses       | 43,082             | 42,461             | 124,455            | 113,313            |

Net investment income      \$1,602,371    \$1,033,307    \$4,543,226    \$2,917,111

Proceeds from the sale and redemption of fixed-maturity securities held-to-maturity were \$624,963 and \$200,000 for the nine months ended September 30, 2018 and 2017, respectively.

Proceeds from the sale or maturity of fixed-maturity securities available-for-sale were \$17,740,260 and \$8,385,874 for the nine months ended September 30, 2018 and 2017, respectively.

Proceeds from the sale of equity securities were \$5,694,121 and \$2,571,122 for the nine months ended September 30, 2018 and 2017, respectively.



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

|   | Three months ended |           | Nine months ended |           |
|---|--------------------|-----------|-------------------|-----------|
|   | September 30,      |           | September 30,     |           |
|   | 2018               | 2017      | 2018              | 2017      |
| Realized (Losses) Gains                 |                    |           |                   |           |
| Fixed-maturity securities:              |                    |           |                   |           |
| Gross realized gains                    | \$4,750            | \$5,542   | \$116,961         | \$67,260  |
| Gross realized losses (1)               | (77,192)           | (56,783)  | (560,418)         | (167,340) |
|   | (72,442)           | (51,241)  | (443,457)         | (100,080) |
| Equity securities:                      |                    |           |                   |           |
| Gross realized gains                    | 121,609            | 229,792   | 436,859           | 386,057   |
| Gross realized losses                   | (106,321)          | (107,553) | (370,705)         | (139,062) |
|   | 15,288             | 122,239   | 66,154            | 246,995   |
| Net realized (losses) gains             | (57,154)           | 70,998    | (377,303)         | 146,915   |
| Other-than-temporary impairment losses: |                    |           |                   |           |
| Fixed-maturity securities               | -                  | (50,000)  | -                 | (50,000)  |
| Unrealized Gains (Losses)               |                    |           |                   |           |
| Equity securities:                      |                    |           |                   |           |
| Gross gains                             | 288,435            | -         | -                 | -         |
| Gross losses                            | -                  | -         | (141,976)         | -         |
|   | 288,435            | -         | (141,976)         | -         |
| Other investments:                      |                    |           |                   |           |
| Gross gains                             | 120,744            | -         | 241,444           | -         |
| Gross losses                            | -                  | -         | -                 | -         |
|   | 120,744            | -         | 241,444           | -         |
| Net unrealized gains                    | 409,179            | -         | 99,468            | -         |
| Net gains (losses) on investments       | \$352,025          | \$20,998  | \$(277,835)       | \$96,915  |

(1)

Gross realized losses for the nine months ended September 30, 2018 and 2017 include a \$23,912 and a \$747 loss, respectively, from the redemption of fixed-maturity securities held-to-maturity.

#### 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 reviewed its equity securities portfolios prior to January 1, 2018) 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 comprehensive (loss) 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 comprehensive (loss) 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.

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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, 2018 and December 31, 2017, there were 166 and 62 fixed-maturity securities, respectively, and 13 equity securities at December 31, 2017 that accounted for the gross unrealized loss, respectively. In December 2017, the Company disposed of one of its held-to-maturity debt securities that was previously recorded in OTTI, a bond issued by the Commonwealth of Puerto Rico. In July 2016, Puerto Rico defaulted on its interest payment to bondholders. Due to the credit deterioration of Puerto Rico, the Company recorded its first credit loss component of OTTI on this investment as of June 30, 2016. As of December 31, 2016, the full amount of the write-down was recognized as a credit component of OTTI in the amount of \$69,911. In September 2017, Hurricane Maria significantly affected Puerto Rico. The impact of this event further contributed to the credit deterioration of Puerto Rico and, as a result, the Company recorded an additional credit loss component of OTTI on this investment for the amount of \$50,000 during the quarter ended September 30, 2017. The total of the two OTTI write-downs of this investment through December 31, 2017 was \$119,911. The Company determined that none of the other unrealized losses were deemed to be OTTI for its portfolio of investments for the nine months ended September 30, 2018 and 2017. 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 available-for-sale securities with unrealized losses representing declines that were considered temporary at September 30, 2018 as follows:

| September 30, 2018  |                     |                   |                       |                   |                   |                       |                      |                   |
|---|---------------------|-------------------|-----------------------|-------------------|-------------------|-----------------------|----------------------|-------------------|
| Category  | Less than 12 months |                   |                       | 12 months or more |                   |                       | Total                |                   |
|   | Fair Value          | Unrealized Losses | No. of Positions Held | Fair Value        | Unrealized Losses | No. of Positions Held | Aggregate Fair Value | Unrealized Losses |
| Fixed-Maturity Securities:  |                     |                   |                       |                   |                   |                       |                      |                   |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$8,139,737         | \$(75,222)        | 7                     | \$-               | \$-               | -                     | \$8,139,737          | \$(75,222)        |
| Political subdivisions of States, Territories and Possessions                         | 3,396,474           | (63,596)          | 7                     | 1,122,656         | (50,343)          | 2                     | 4,519,130            | (113,939)         |
| Corporate and other bonds industrial and miscellaneous                                | 86,846,478          | (2,461,966)       | 108                   | 6,950,836         | (399,360)         | 14                    | 93,797,314           | (2,861,326)       |
| Residential mortgage and  |                     |                   |                       |                   |                   |                       |                      |                   |

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|                                       |               |               |     |              |             |    |               |               |
|---------------------------------------|---------------|---------------|-----|--------------|-------------|----|---------------|---------------|
| other<br>asset backed<br>securities   | 8,593,080     | (99,954)      | 10  | 11,453,668   | (464,193)   | 18 | 20,046,748    | (564,147)     |
| Total<br>fixed-maturity<br>securities | \$106,975,769 | \$(2,700,738) | 132 | \$19,527,160 | \$(913,896) | 34 | \$126,502,929 | \$(3,614,634) |



The Company held available-for-sale securities with unrealized losses representing declines that were considered temporary at December 31, 2017 as follows:

| December 31, 2017   |                     |                   |                       |                   |                   |                       |                      |                   |
|---|---------------------|-------------------|-----------------------|-------------------|-------------------|-----------------------|----------------------|-------------------|
| Category  | Less than 12 months |                   |                       | 12 months or more |                   |                       | Total                |                   |
|   | Fair Value          | Unrealized Losses | No. of Positions Held | Fair Value        | Unrealized Losses | No. of Positions Held | Aggregate Fair Value | Unrealized Losses |
| Fixed-Maturity Securities:                                    |                     |                   |                       |                   |                   |                       |                      |                   |
| Political subdivisions of States, Territories and Possessions | \$1,549,839         | \$(30,814)        | 4                     | \$-               | \$-               | -                     | \$1,549,839          | \$(30,814)        |
| Corporate and other bonds industrial and miscellaneous        | 15,036,462          | (269,857)         | 20                    | 9,113,924         | (340,516)         | 17                    | 24,150,386           | (610,373)         |
| Residential mortgage and other asset backed securities        | 6,956,371           | (48,482)          | 6                     | 7,867,572         | (189,022)         | 15                    | 14,823,943           | (237,504)         |
| Total fixed-maturity securities                               | \$23,542,672        | \$(349,153)       | 30                    | \$16,981,496      | \$(529,538)       | 32                    | \$40,524,168         | \$(878,691)       |

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|  |              |             |    |              |             |    |              |               |
|--|--------------|-------------|----|--------------|-------------|----|--------------|---------------|
| Equity Securities:                             |              |             |    |              |             |    |              |               |
| Preferred stocks                               | \$1,605,217  | \$(20,313)  | 5  | \$1,776,675  | \$(120,712) | 3  | \$3,381,892  | \$(141,025)   |
| Common stocks and exchange traded mutual funds | 1,446,375    | (222,205)   | 4  | 124,900      | (14,530)    | 1  | 1,571,275    | (236,735)     |
| Total equity securities                        | \$3,051,592  | \$(242,518) | 9  | \$1,901,575  | \$(135,242) | 4  | \$4,953,167  | \$(377,760)   |
| Total  | \$26,594,264 | \$(591,671) | 39 | \$18,883,071 | \$(664,780) | 36 | \$45,477,335 | \$(1,256,451) |



#### Note 4 - Fair Value Measurements

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

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

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

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

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

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





The following table presents information about the Company's investments that are measured at fair value on a recurring basis at September 30, 2018 and December 31, 2017 indicating the fair value hierarchy of the valuation inputs the Company utilized to determine such fair value:

|   | September 30, 2018 |              |         |               |
|---|--------------------|--------------|---------|---------------|
|   | Level 1            | Level 2      | Level 3 | Total         |
| Fixed-maturity securities available-for-sale                        |                    |              |         |               |
| U.S. Treasury securities  |                    |              |         |               |
| and obligations of U.S.   |                    |              |         |               |
| government corporations   |                    |              |         |               |
| and agencies  | \$8,139,737        | \$-          | \$-     | \$8,139,737   |
| Political subdivisions of<br>States, Territories and<br>Possessions | -                  | 6,457,771    | -       | 6,457,771     |
| Corporate and other<br>bonds industrial and<br>miscellaneous        | 100,090,703        | 3,674,031    | -       | 103,764,734   |
| Residential mortgage and other asset backed securities              | -                  | 22,998,293   | -       | 22,998,293    |
| Total fixed maturities  | 108,230,440        | 33,130,095   | -       | 141,360,535   |
| Equity securities   | 18,876,690         | -            | -       | 18,876,690    |
| Total investments   | \$127,107,130      | \$33,130,095 | \$-     | \$160,237,225 |

December 31, 2017

|  | Level 1 | Level 2 | Level 3 | Total |
|--|---------|---------|---------|-------|
|--|---------|---------|---------|-------|

Fixed-maturity securities available-for-sale

Political subdivisions of

States, Territories and

|  |              |              |     |               |
|--|--------------|--------------|-----|---------------|
| Possessions  | \$-          | \$11,315,443 | \$- | \$11,315,443  |
| Corporate and other<br>bonds industrial and<br>miscellaneous | 83,597,300   | 4,544,165    | -   | 88,141,465    |
| Residential mortgage and other asset backed securities       | -            | 20,531,348   | -   | 20,531,348    |
| Total fixed maturities                                       | 83,597,300   | 36,390,956   | -   | 119,988,256   |
| Equity securities  | 14,286,198   | -            | -   | 14,286,198    |
| Total investments  | \$97,883,498 | \$36,390,956 | \$- | \$134,274,454 |



Pursuant to ASC 820 “Fair Value Measurement,” an entity is permitted, as a practical expedient, to estimate the fair value of an investment within the scope of ASC 820 using the net asset value (“NAV”) per share (or its equivalent) of the investment. The following table sets forth the Company’s investment in a hedge fund investment measured at NAV per share (or its equivalent) as of September 30, 2018 and December 31, 2017. The Company measures this investment at fair value on a recurring basis. Fair value using NAV per share is as follows as of the dates indicated:

| Category | September 30,<br>2018 | December 31,<br>2017 |
|----------|-----------------------|----------------------|
|----------|-----------------------|----------------------|

Other Investments:

|            |             |     |
|------------|-------------|-----|
| Hedge fund | \$2,241,444 | \$- |
| Total      | \$2,241,444 | \$- |

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 condensed consolidated statements of income and comprehensive income within net gains (losses) on investments.

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

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

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

Long-term debt: The 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 and real estate as of September 30, 2018 and December 31, 2017 are as follows:

|  | September 30, 2018 |              | December 31, 2017 |              |
|--|--------------------|--------------|-------------------|--------------|
|  | Carrying Value     | Fair Value   | Carrying Value    | Fair Value   |
| Fixed-maturity securities-held-to maturity   | \$4,222,352        | \$4,410,764  | \$4,869,808       | \$5,150,076  |
| Cash and cash equivalents                    | \$29,893,676       | \$29,893,676 | \$48,381,633      | \$48,381,633 |
| Investment subscription receivable           | \$-                | \$-          | \$2,000,000       | \$2,000,000  |
| Premiums receivable, net                     | \$13,484,547       | \$13,484,547 | \$13,217,698      | \$13,217,698 |
| Reinsurance receivables, net                 | \$25,018,461       | \$25,018,461 | \$28,519,130      | \$28,519,130 |
| Real estate, net of accumulated depreciation | \$2,199,140        | \$2,705,000  | \$2,261,829       | \$2,705,000  |
| Reinsurance balances payable                 | \$1,723,844        | \$1,723,844  | \$2,563,966       | \$2,563,966  |
| Long-term debt, net                          | \$29,251,206       | \$29,251,206 | \$29,126,965      | \$29,126,965 |

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, 2018  |               |          |                |                |
| Premiums written                      | \$107,175,413 | \$842    | \$(19,409,423) | \$87,766,832   |
| Change in unearned premiums           | (9,930,503)   | 3,762    | (3,363,953)    | (13,290,694)   |
| Premiums earned                       | \$97,244,910  | \$4,604  | \$(22,773,376) | \$74,476,138   |
| Nine months ended September 30, 2017  |               |          |                |                |
| Premiums written                      | \$89,423,758  | \$18,203 | \$(20,719,037) | \$68,722,924   |
| Change in unearned premiums           | (8,456,690)   | 8,162    | (5,436,513)    | \$(13,885,041) |
| Premiums earned                       | \$80,967,068  | \$26,365 | \$(26,155,550) | \$54,837,883   |
| Three months ended September 30, 2018 |               |          |                |                |
| Premiums written                      | \$38,785,453  | \$18     | \$(2,683,699)  | \$36,101,772   |
| Change in unearned premiums           | (4,435,174)   | 698      | (4,133,389)    | (8,567,865)    |
| Premiums earned                       | \$34,350,279  | \$716    | \$(6,817,088)  | \$27,533,907   |



Three months ended September 30, 2017

|                             |              |          |               |              |
|-----------------------------|--------------|----------|---------------|--------------|
| Premiums written            | \$32,839,891 | \$11,910 | \$(590,482)   | \$32,261,319 |
| Change in unearned premiums | (4,407,894)  | (165)    | (6,338,852)   | (10,746,911) |
| Premiums earned             | \$28,431,997 | \$11,745 | \$(6,929,334) | \$21,514,408 |

Premium receipts in advance of the policy effective date are recorded as advance premiums. The balance of advance premiums as of September 30, 2018 and December 31, 2017 was \$2,888,720 and \$1,477,693, 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,     |              |
|                                  | 2018              | 2017         |
| Balance at beginning of period   | \$48,799,622      | \$41,736,719 |
| Less reinsurance recoverables    | (16,748,908)      | (15,776,880) |
| Net balance, beginning of period | 32,050,714        | 25,959,839   |
| Incurred related to:             |                   |              |
| Current year                     | 41,611,658        | 23,071,466   |
| Prior years                      | 127,465           | (250,225)    |
| Total incurred                   | 41,739,123        | 22,821,241   |
| Paid related to:                 |                   |              |
| Current year                     | 23,404,909        | 12,955,928   |
| Prior years                      | 12,160,419        | 8,176,715    |
| Total paid                       | 35,565,328        | 21,132,643   |
| Net balance at end of period     | 38,224,509        | 27,648,437   |
| Add reinsurance recoverables     | 15,718,448        | 14,642,360   |
| Balance at end of period         | \$53,942,957      | \$42,290,797 |

Incurred losses and LAE are net of reinsurance recoveries under reinsurance contracts of \$11,668,527 and \$8,503,237 for the nine months ended September 30, 2018 and 2017, 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, 2018 and 2017 was \$127,465 unfavorable and \$(250,225), 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 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 also 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.

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 claim 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, 2015 and prior is limited, although there remains the possibility of adverse development on reported claims (“case development” IBNR). In certain rare circumstances states have retroactively revised a statute of limitations. The Company is not aware of any such effort that would have a material impact on the Company’s results.

The following is information about incurred and paid claims development as of September 30, 2018, net of reinsurance, as well as the cumulative reported claims by accident year and total IBNR reserves as of September 30, 2018 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, 2009 to December 31, 2015 is presented as supplementary unaudited information.

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.







## All Lines of Business

(in thousands, except reported claims data)

| Year | Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance |          |          |                  |          |          |          |          |          | As of                                       |            |                                  |
|------|--|----------|----------|------------------|----------|----------|----------|----------|----------|---|------------|----------------------------------|
|      | Accident For the Years Ended December 31,                                |          |          |                  |          |          |          |          |          | September 30, 2018                          | Cumulative |                                  |
|      | 2009   | 2010     | 2011     | 2012             | 2013     | 2014     | 2015     | 2016     | 2017     | 2018  | IBNR       | Number of                        |
|      | (Unaudited 2009 - 2015)  |          |          |                  |          |          |          |          |          | Nine Months Ended September 30, (Unaudited) |            | Reported Claims by Accident Year |
| 2009 | \$ 4,403   | \$ 4,254 | \$ 4,287 | \$ 4,384         | \$ 4,511 | \$ 4,609 | \$ 4,616 | \$ 4,667 | \$ 4,690 | \$ 4,670                                    | \$ 0       | 1,136                            |
| 2010 |  | 5,598    | 5,707    | <del>6,429</del> | 6,912    | 6,853    | 6,838    | 6,840    |          | 6,785                                       | (1)        | 1,616                            |
| 2011 |  |          | 7,603    | <del>8,678</del> | 9,440    | 9,198    | 9,066    | 9,144    |          | 9,147                                       | 2          | 1,913                            |
| 2012 |  |          |          | <del>9,349</del> | 10,278   | 10,382   | 10,582   | 10,790   |          | 10,770                                      | 19         | 4,702                            |
| 2013 |  |          |          | 10,728           | 9,745    | 9,424    | 9,621    | 10,061   |          | 10,000                                      | 132        | 1,560                            |
| 2014 |  |          |          |                  | 14,193   | 14,260   | 14,218   | 14,564   |          | 14,954                                      | 309        | 2,129                            |
| 2015 |  |          |          |                  |          | 22,340   | 21,994   | 22,148   |          | 22,186                                      | 642        | 2,546                            |
| 2016 |  |          |          |                  |          |          | 26,062   | 24,941   |          | 24,256                                      | 1,646      | 2,860                            |
| 2017 |  |          |          |                  |          |          |          | 31,605   |          | 32,146                                      | 3,376      | 3,322                            |
| 2018 |  |          |          |                  |          |          |          |          |          | 39,653                                      | 6,386      | 2,953                            |
|      |  |          |          |                  |          |          |          |          | Total    | \$ 174,567                                  |            |                                  |

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

## All Lines of Business

(in thousands)

| Year | Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance |          |          |          |          |          |          |          |          |            |  |
|------|---|----------|----------|----------|----------|----------|----------|----------|----------|------------|--|
|      | Accident For the Years Ended December 31,                                       |          |          |          |          |          |          |          |          |            |  |
|      | 2009  | 2010     | 2011     | 2012     | 2013     | 2014     | 2015     | 2016     | 2017     | 2018       |  |
|      | (Unaudited 2009 - 2015)   |          |          |          |          |          |          |          |          |            | Nine Months Ended September 30, 2018 (Unaudited) |
| 2009 | \$ 2,298  | \$ 3,068 | \$ 3,607 | \$ 3,920 | \$ 4,134 | \$ 4,362 | \$ 4,424 | \$ 4,468 | \$ 4,487 | \$ 4,659   |  |
| 2010 |   | 2,566    | 3,947    | 4,972    | 5,602    | 6,323    | 6,576    | 6,720    | 6,772    | 6,778      |  |
| 2011 |   |          | 3,740    | 5,117    | 6,228    | 7,170    | 8,139    | 8,540    | 8,702    | 8,717      |  |
| 2012 |   |          |          | 3,950    | 5,770    | 7,127    | 8,196    | 9,187    | 10,236   | 10,302     |  |
| 2013 |   |          |          |          | 3,405    | 5,303    | 6,633    | 7,591    | 8,407    | 8,834      |  |
| 2014 |   |          |          |          |          | 5,710    | 9,429    | 10,738   | 11,770   | 13,508     |  |
| 2015 |   |          |          |          |          |          | 12,295   | 16,181   | 18,266   | 19,473     |  |
| 2016 |   |          |          |          |          |          |          | 15,364   | 19,001   | 20,098     |  |
| 2017 |   |          |          |          |          |          |          |          | 16,704   | 23,499     |  |
| 2018 |   |          |          |          |          |          |          |          |          | 22,223     |  |
|      |   |          |          |          |          |          |          |          | Total    | \$ 138,091 |  |
|      |   |          |          |          |          |          |          |          |          | \$36,476   |  |

|   |           |
|---|-----------|
| Net liability for unpaid loss and allocated loss adjustment expenses for the accident years presented |           |
| All outstanding liabilities before 2009, net of reinsurance   | 199       |
| Liabilities for loss and allocated loss adjustment expenses, net of reinsurance                       | \$ 36,675 |



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

Reconciliation of the Disclosure of Incurred and Paid Loss Development  
to the Liability for Loss and LAE Reserves

| (in thousands)  | As of<br>September 30, 2018 |
|---|-----------------------------|
| Liabilities for allocated loss and loss adjustment expenses, net of reinsurance | \$36,675                    |
| Total reinsurance recoverable on unpaid losses                                  | 15,718                      |
| Unallocated loss adjustment expenses  | 1,550                       |
| Total gross liability for loss and LAE reserves                                 | \$53,943                    |

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, 2018 for its personal lines business, which primarily consists of homeowners' policies, were covered under the July 1, 2017 through June 30, 2018 treaty year and the new treaty year that began on July 1, 2018 ("2017/2019 Treaty"). The Company's quota share reinsurance treaties in effect for the nine months ended September 30, 2017 were covered under the 2017/2019 Treaty and July 1, 2016 through June 30, 2017 treaty year ("2016/2017 Treaty").

In March 2017, the Company bound its personal lines quota share reinsurance treaty effective July 1, 2017. The treaty provides for a reduction in the quota share ceding rate to 20%, from 40% in the 2016/2017 Treaty, and an increase in the provisional ceding commission rate to 53%, from 52% in the 2016/2017 Treaty. The 2017/2019 Treaty covers a two year period from July 1, 2017 through June 30, 2019. 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% from 20%.

The Company entered into new excess of loss and catastrophe reinsurance treaties effective July 1, 2018. Material terms for reinsurance treaties in effect for the treaty years shown below are as follows:



Treaty Year

July 1, 2018      July 1, 2017      July 1, 2016

to                      to                      to

Line of Business                      June 30, 2019      June 30, 2018      June 30, 2017

Personal Lines:

Homeowners, dwelling fire and canine legal liability

Quota share treaty:

|   |              |              |              |
|---|--------------|--------------|--------------|
| Percent ceded   | 10%          | 20%          | 40%          |
| Risk retained   | \$900,000    | \$800,000    | \$500,000    |
| Losses per occurrence subject to quota share reinsurance coverage               | \$1,000,000  | \$1,000,000  | \$833,333    |
| Excess of loss coverage and facultative facility above quota share coverage (1) | \$9,000,000  | \$9,000,000  | \$3,666,667  |
|   | in excess of | in excess of | in excess of |
|   | \$1,000,000  | \$1,000,000  | \$833,333    |
| Total reinsurance coverage per occurrence                                       | \$9,100,000  | \$9,200,000  | \$4,000,000  |
| Losses per occurrence subject to reinsurance coverage                           | \$10,000,000 | \$10,000,000 | \$4,500,000  |

Expiration date                      June 30, 2019      June 30, 2019      June 30, 2017

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, 2019      June 30, 2018      June 30, 2017

Commercial Lines:

General liability commercial policies

Quota share treaty                      None

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|   |               | None          | None          |
|---|---------------|---------------|---------------|
| Risk retained   | \$750,000     | \$750,000     | \$500,000     |
| Excess of loss coverage above risk retained                         | \$3,750,000   | \$3,750,000   | \$4,000,000   |
|   | in excess of  | in excess of  | in excess of  |
|   | \$750,000     | \$750,000     | \$500,000     |
| Total reinsurance coverage per occurrence                           | \$3,750,000   | \$3,750,000   | \$4,000,000   |
| 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                       | 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   | \$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, 2019 | June 30, 2018 | June 30, 2017 |
| Catastrophe Reinsurance:  |               |               |               |
| Initial loss subject to personal lines quota share treaty           | \$5,000,000   | \$5,000,000   | \$5,000,000   |
| Risk retained per catastrophe occurrence (2)                        | \$4,500,000   | \$4,000,000   | \$3,000,000   |
| Catastrophe loss coverage in excess of quota share coverage (3) (4) | \$445,000,000 | \$315,000,000 | \$247,000,000 |
| Reinstatement premium protection (5)                                | Yes           | Yes           | Yes           |

(1)

For personal lines, the 2017/2019 Treaty 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. 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.

(4)

Effective July 1, 2018, the top \$50,000,000 layer of catastrophe reinsurance coverage has a two year term expiring on June 30, 2020.

(5)

Effective July 1, 2016, reinstatement premium protection for \$20,000,000 of catastrophe coverage in excess of \$5,000,000.

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

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







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

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

(1)

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

(2)

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

(3)

Covered by excess of loss treaties.

(4)

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



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

| Treaty              | July 1, 2017 - June 30, 2018 |               | July 1, 2016 - June 30, 2017 |               |
|---------------------|------------------------------|---------------|------------------------------|---------------|
|                     | Range of Loss                | Risk Retained | Range of Loss                | Risk Retained |
| Personal Lines (1)  | Initial \$1,000,000          | \$800,000     | Initial \$833,333            | \$500,000     |
|                     | \$1,000,000 - \$10,000,000   | None(2)       | \$833,333 - \$4,500,000      | None(3)       |
|                     | Over \$10,000,000            | 100%          | Over \$4,500,000             | 100%          |
| Personal Umbrella   | Initial \$1,000,000          | \$100,000     | Initial \$1,000,000          | \$100,000     |
|                     | \$1,000,000 - \$5,000,000    | None          | \$1,000,000 - \$5,000,000    | None          |
|                     | Over \$5,000,000             | 100%          | Over \$5,000,000             | 100%          |
| Commercial Lines    | Initial \$750,000            | \$750,000     | Initial \$500,000            | \$500,000     |
|                     | \$750,000 - \$4,500,000      | None(3)       | \$500,000 - \$4,500,000      | None(3)       |
|                     | Over \$4,500,000             | 100%          | Over \$4,500,000             | 100%          |
| Commercial Umbrella | Initial \$1,000,000          | \$100,000     | Initial \$1,000,000          | \$100,000     |
|                     | \$1,000,000 - \$5,000,000    | None          | \$1,000,000 - \$5,000,000    | None          |
|                     | Over \$5,000,000             | 100%          | Over \$5,000,000             | 100%          |
| Catastrophe (4)     | Initial \$5,000,000          | \$4,000,000   | Initial \$5,000,000          | \$3,000,000   |
|                     | \$5,000,000 - \$320,000,000  | None          | \$5,000,000 - \$252,000,000  | None          |
|                     | Over \$320,000,000           | 100%          | Over \$252,000,000           | 100%          |

(1)

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

(2)

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

(3)

Covered by excess of loss treaties.

(4)

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

The Company's reinsurance program 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.

The Company's estimated ultimate treaty year loss ratios ("Loss Ratio(s)") for treaties in effect for the three months and nine months ended September 30, 2018 are attributable to contracts for the 2017/2019 Treaty. The Company's estimated ultimate treaty year Loss Ratios for treaties in effect for the three months and nine months ended September 30, 2017 are attributable to contracts for the 2017/2019 Treaty and 2016/2017 Treaty.



Treaty in effect for the three months and nine months ended September 30, 2018

Under the 2017/2019 Treaty, the Company receives an upfront fixed provisional rate that is subject to a sliding scale contingent adjustment based upon Loss Ratio. Under this arrangement, the Company earns and earned provisional ceding commissions that are subject to later adjustment dependent on changes to the estimated Loss Ratio for the 2017/2019 Treaty. The Company's Loss Ratios for the period July 1, 2018 through September 30, 2018 attributable to the 2017/2019 Treaty were consistent with the contractual Loss Ratio at which provisional ceding commissions were earned, and therefore no contingent commission adjustment was recorded for the three months ended September 30, 2018. The Company's Loss Ratios for the period July 1, 2017 through June 30, 2018 attributable to the 2017/2019 Treaty were higher than the contractual Loss Ratio at which provisional ceding commissions were earned. Accordingly, for the six months ended June 30, 2018, the Company incurred negative contingent ceding commissions as a result of the estimated Loss Ratio for the 2017/2019 Treaty, which reduced contingent ceding commissions earned.

Treaty in effect for the three months and nine months ended September 30, 2017

Under the 2017/2019 and 2016/2017 Treaty, the Company received an upfront fixed provisional rate that was subject to a sliding scale contingent adjustment based upon Loss Ratio. Under this arrangement, the Company earned provisional ceding commissions that were subject to later adjustment dependent on changes to the estimated Loss Ratio for the 2016/2017 Treaty. The Company's Loss Ratios for the period July 1, 2017 through September 30, 2017 (attributable to the 2017/2019 Treaty), and from July 1, 2016 through June 30, 2017 (attributable to the 2016/2017 Treaty) were consistent with the contractual Loss Ratio at which the provisional ceding commissions were earned and therefore no contingent commission adjustments were recorded for the three months and nine months ended September 30, 2017 with respect to these treaties.

In addition to the treaties that were in effect for the three months and nine months ended September 30, 2018 and 2017, the Loss Ratios from prior years' treaties are subject to change as incurred losses from those periods increase or decrease, resulting in an increase or decrease in the commission rate and contingent ceding commissions earned.

Ceding commission revenue consists of the following:

|                                       | Three months ended |             | Nine months ended |             |
|---------------------------------------|--------------------|-------------|-------------------|-------------|
|                                       | September 30,      |             | September 30,     |             |
|                                       | 2018               | 2017        | 2018              | 2017        |
| Provisional ceding commissions earned | \$1,255,034        | \$1,921,457 | \$5,468,314       | \$8,689,803 |
| Contingent ceding commissions earned  | (210,505)          | (203,847)   | (1,037,459)       | (481,803)   |
|                                       | \$1,044,529        | \$1,717,610 | \$4,430,855       | \$8,208,000 |

Provisional ceding commissions are settled monthly. Balances due from reinsurers for contingent ceding commissions on quota share treaties are settled annually based on the Loss Ratio of each treaty year that ends on June 30. As

discussed above, the Loss Ratios from prior years' treaties are subject to change as incurred losses from those periods develop, resulting in an increase or decrease in the commission rate and contingent ceding commissions earned. As of September 30, 2018 and December 31, 2017, net contingent ceding commissions payable to reinsurers under all treaties was approximately \$1,205,000 and \$1,850,000, respectively, which is recorded in reinsurance balances payable on the accompanying condensed consolidated balance sheets.





## Note 7 – Debt

## Short-term Debt

In July 2017, KICO became a member of, and invested in, the Federal Home Loan Bank of New York (“FHLBNY”). The aggregate investment in dividend bearing common stock was \$18,400 as of September 30, 2018. FHLBNY 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 – 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 December 31 of the previous year and are due and payable within one year of borrowing. The maximum allowable advance as of September 30, 2018 was approximately \$9,849,000 based on KICO’s net admitted assets as of December 31, 2017. Advances are limited to the amount of available collateral, which was approximately \$5,790,000 as of September 30, 2018. There were no borrowings under this facility during the period ended September 30, 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, beginning on June 30, 2018 at the rate of 5.50% per year from December 19, 2017. The net proceeds of the issuance were \$29,121,630, net of discount of \$163,200 and transaction costs of \$715,170, for an effective yield of 5.67%. The balance of long-term debt as of September 30, 2018 and December 31, 2017 is as follows:

|                              | September 30, | December 31, |
|------------------------------|---------------|--------------|
|                              | 2018          | 2017         |
| 5.50% Senior Unsecured Notes | \$30,000,000  | \$30,000,000 |
| Discount                     | (137,877)     | (162,209)    |
| Issuance costs               | (610,917)     | (710,826)    |
| Long-term debt, net          | \$29,251,206  | \$29,126,965 |

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

applicable redemption date) discounted to the redemption date on a semi-annual basis at the Treasury Rate, plus 50 basis points.



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

#### Note 8 – Stockholders’ Equity

##### Public Offering of Common Stock

On January 31, 2017, the Company closed on an underwritten public offering of 2,500,000 shares of its common stock. On February 14, 2017, the Company closed on the underwriters’ purchase option for an additional 192,500 shares of its common stock. The public offering price for the 2,692,500 shares sold was \$12.00 per share. The aggregate net proceeds to the Company were approximately \$30,137,000, after deducting underwriting discounts and commissions and other offering expenses in the aggregate amount of approximately \$2,173,000.

On March 1, 2017, the Company used \$23,000,000 of the net proceeds from the offering to contribute capital to its insurance subsidiary, KICO, to support its ratings upgrade plan and additional growth. The remainder of the net proceeds are being used for general corporate purposes. A shelf registration statement relating to the shares sold in the offering was filed with the SEC and became effective on January 19, 2017.

##### Dividends Declared and Paid

Dividends declared and paid on common stock were \$3,204,813 and \$2,363,993 for the nine months ended September 30, 2018 and 2017, respectively. The Company’s Board of Directors approved a quarterly dividend on November 7, 2018 of \$.10 per share payable in cash on December 14, 2018 to stockholders of record as of November 30, 2018 (see Note 13).

##### 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. Pursuant to the Company’s 2014 Equity Participation Plan (the “2014 Plan”) 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.

The results of operations for the three months ended September 30, 2018 and 2017 include stock-based compensation expense related to stock options totaling approximately \$1,000 and \$5,000 respectively. The results of operations for the nine months ended September 30, 2018 and 2017 include stock-based compensation expense related to stock options totaling approximately \$5,000 and \$35,000, 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, 2018 and 2017. Such amounts have been recorded in the condensed consolidated statements of income and comprehensive income within other operating expenses.



Stock-based compensation expense 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. No options were granted during the nine months ended September 30, 2018 and 2017.

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, 2018 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, 2018               | 341,150          | \$6.69                                    | 1.67  | \$4,131,028               |
| Granted                                      | -                | \$-                                       | -   | \$-                       |
| Exercised                                    | (175,250)        | \$6.32                                    | -   | \$2,364,143               |
| Forfeited                                    | -                | \$-                                       | -   | \$-                       |
| Outstanding at September 30, 2018            | 165,900          | \$7.09                                    | 1.22  | \$1,976,245               |
| Vested and Exercisable at September 30, 2018 | 155,900          | \$7.01                                    | 1.14  | \$1,869,508               |

The aggregate intrinsic value of options outstanding and options exercisable at September 30, 2018 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 \$19.00 closing price of the Company’s common stock on September 30, 2018. The total intrinsic value of options exercised during the nine months ended September 30, 2018 was \$2,364,143, 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”), 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 \$74,063 from the exercise of options for the purchase of 12,750 shares of common stock during the nine months ended September 30, 2018. The Company received 7,855

shares from the exercise of options under a Share Exchange for the purchase of 30,000 shares of common stock during the nine months ended September 30, 2018. The remaining 132,500 options exercised during the nine months ended September 30, 2018 were Net Exercises, resulting in the issuance of 54,231 shares of common stock. The Company received cash proceeds of \$66,517 from the exercise of options for the purchase of 11,750 shares of common stock during the nine months ended September 30, 2017. The remaining 2,750 options exercised during the nine months ended September 30, 2017 were Net Exercises, resulting in the issuance of 1,828 shares of common stock.





As of September 30, 2018, the fair value of unamortized compensation cost related to unvested stock option awards was approximately \$2,000. Unamortized compensation cost as of September 30, 2018 is expected to be recognized over a remaining weighted-average vesting period of 0.05 years.

As of September 30, 2018, there were 463,034 shares reserved for grants under the 2014 Plan.

#### Restricted Stock Awards

A summary of the restricted common stock activity under the Company's 2014 Plan for the nine months ended September 30, 2018 is as follows:

| Restricted Stock Awards       | Shares   | Weighted Average Grant Date Fair Value per Share | Aggregate Fair Value |
|-------------------------------|----------|--|----------------------|
| Balance at January 1, 2018    | 47,337   | \$14.35  | \$679,180            |
| Granted                       | 90,004   | \$19.09  | \$1,717,958          |
| Vested                        | (15,752) | \$14.07  | \$(221,613)          |
| Forfeited                     | (664)    | \$15.00  | \$(9,960)            |
| Balance at September 30, 2018 | 120,925  | \$17.91  | \$2,165,565          |

Fair value was calculated using the closing price of the Company's common stock on the grant date. For the three months ended September 30, 2018 and 2017, stock-based compensation of approximately \$196,000 and \$65,000, respectively, for these grants is included in other operating expenses in the condensed consolidated statements of income and comprehensive income. For the nine months ended September 30, 2018 and 2017, stock-based compensation of approximately \$477,000 and \$163,000, respectively, for these grants is included in other operating expenses in the condensed consolidated statements of income and comprehensive income. These amounts reflect the Company's accounting expense and do not correspond to the actual value that will be recognized by the directors, executives and employees.

#### Note 9 – Income Taxes

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

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





On December 22, 2017, the Tax Act was enacted by the U.S. federal government. The Company has accounted for the material impacts of the Tax Act by re-measuring its deferred tax assets/(liabilities) at the 21% enacted tax rate as of December 31, 2017. Upon completion of the 2017 U.S. income tax return in 2018, the Company did not identify any additional re-measurement adjustments to its recorded deferred tax liabilities and the one-time transition tax. The Company will continue to assess its provision for income taxes as future guidance is issued, but does not currently anticipate significant revisions will be necessary. Any such revisions will be treated in accordance with the measurement period guidance outlined in Staff Accounting Bulletin No. 118.

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

|   | September 30, | December 31, |
|---|---------------|--------------|
|   | 2018          | 2017         |
| Deferred tax asset:                                     |               |              |
| Net operating loss carryovers (1)                       | \$87,018      | \$103,655    |
| Claims reserve discount                                 | 357,793       | 300,005      |
| Unearned premium  | 3,048,775     | 2,431,301    |
| Deferred ceding commission revenue                      | 528,668       | 895,947      |
| Net unrealized loss of securities - available for sale  | 537,678       | -            |
| Other   | 329,273       | 382,522      |
| Total deferred tax assets                               | 4,889,205     | 4,113,430    |
| Deferred tax liability:                                 |               |              |
| Investment in KICO (2)                                  | 759,543       | 759,543      |
| Deferred acquisition costs                              | 3,595,882     | 3,117,920    |
| Intangibles   | 158,550       | 212,100      |
| Depreciation and amortization                           | 253,227       | 328,735      |
| Net unrealized gains of securities - available for sale | -             | 295,474      |
| Total deferred tax liabilities                          | 4,767,202     | 4,713,772    |
| Net deferred income tax asset (liability)               | \$122,003     | \$(600,342)  |

(1)

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

|             | September 30, | December 31, |            |
|-------------|---------------|--------------|------------|
| Type of NOL | 2018          | 2017         | Expiration |

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|   |             |           |                   |
|---|-------------|-----------|-------------------|
| State only (A)  | \$1,146,036 | \$824,996 | December 31, 2038 |
| Valuation allowance   | (1,061,118) | (725,541) |                   |
| State only, net of valuation allowance                      | 84,918      | 99,455    |                   |
| Amount subject to Annual Limitation, federal only (B)       | 2,100       | 4,200     | December 31, 2019 |
| Total deferred tax asset from net operating loss carryovers | \$87,018    | \$103,655 |                   |

(A) Kingstone generates operating losses for state purposes and has prior year NOLs available. The state NOL as of September 30, 2018 and December 31, 2017 was approximately \$17,631,000 and \$12,692,000, respectively. KICO is not subject to state income taxes. KICO's state tax obligations are paid through a gross premiums tax, which is included in the condensed consolidated statements of 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 2038.



(B) The Company has an NOL of \$10,000 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 loss subject to the Annual Limitation will expire on 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 deferred tax liability was reduced to \$759,543 upon the reduction of federal income tax rates as of December 31, 2017. The Company is required to maintain its deferred tax liability of \$759,543 related to this temporary difference until the stock of KICO is sold, or the assets of KICO are sold or KICO and the parent are merged.

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

The Company had no material unrecognized tax benefit and no adjustments to liabilities or operations were required. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the nine months ended September 30, 2018 and 2017. 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, 2014 through December 31, 2017 remain subject to examination. In March 2018, the Company received a notice that its federal income tax return for the year ended December 31, 2016 was selected for examination by the Internal Revenue Service. The final results of this examination are unknown, although management believes that the return, as filed, is fully compliant with applicable tax code.

Note 10 – Earnings Per Common 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 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 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 per common share excludes outstanding options in periods where the



exercise of such options would be anti-dilutive.

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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,     |            |
|   | 2018               | 2017       | 2018              | 2017       |
| Weighted average number of shares outstanding   | 10,681,329         | 10,626,242 | 10,672,084        | 10,307,689 |
| Effect of dilutive securities, common share equivalents   |                    |            |                   |            |
| Stock options   | 98,749             | 197,133    | 100,628           | 189,211    |
| Restricted stock awards   | 11,045             | 9,364      | 7,878             | 3,372      |
| Weighted average number of shares outstanding,<br>used for computing diluted earnings per share | 10,791,123         | 10,832,739 | 10,780,590        | 10,500,272 |

#### Note 11 - Commitments and Contingencies

##### Litigation

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

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. In June 2016, the Company entered into a lease modification agreement. 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 was 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 is recognized on a straight-line basis over the lease term. At September 30, 2018, cumulative rent expense exceeded cumulative rent

payments by \$91,900. This difference is recorded as deferred rent and is included in accounts payable, accrued expenses and other liabilities in the condensed consolidated balance sheets.

As of September 30, 2018, aggregate future minimum rental commitments under the Company's modified lease agreement are as follows:

36



For the Year

Ending

| December 31,        | Total       |
|---------------------|-------------|
| 2018 (three months) | \$41,379    |
| 2019                | 169,861     |
| 2020                | 175,806     |
| 2021                | 181,959     |
| 2022                | 188,328     |
| Thereafter          | 244,064     |
| Total               | \$1,001,397 |

Rent expense for the three months ended September 30, 2018 and 2017 amounted to \$41,342 for each period. Rent expense for the nine months ended September 30, 2018 and 2017 amounted to \$124,026 for each period. Rent expense is included in the condensed consolidated statements of income and comprehensive income within other underwriting expenses.

Employment Agreement

Barry Goldstein

On October 16, 2018, the Company entered into an amended and restated employment agreement with Barry Goldstein, its President, Chairman of the Board and Chief Executive Officer, effective as of January 1, 2019 and expiring on December 31, 2021 (the “Amended Employment Agreement”). Pursuant to the Amended Employment Agreement, Mr. Goldstein will step down as Chief Executive Officer on January 1, 2019 and has currently been named Executive Chairman of the Board.

Mr. Goldstein will be entitled to receive an annual base salary of \$636,500 for the calendar year 2019 and \$500,000 for each of the calendar years 2020 and 2021. In addition, Mr. Goldstein is eligible to receive an annual performance bonus equal to 3% of the Company’s consolidated income from operations before taxes, exclusive of the Company’s consolidated net investment income (loss) and net realized gains (losses) on investments. In addition, pursuant to the Amended Employment Agreement, Mr. Goldstein will continue to be entitled to a long-term compensation award (“LTC”) (which is a continuation of the previous terms under the agreement in effect since January 1, 2017) 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, 2019 as compared to December 31, 2016 (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 separation payments equal to his then applicable base salary, the 3% bonus and the LTC payment for the remainder of the term. Mr. Goldstein would be entitled, under certain circumstances, to a payment equal to three times his then annual salary and the target LTC payment in the event of the termination of his employment following a change of control of the Company. Pursuant to the Amended Employment Agreement, Mr. Goldstein will be entitled to receive a grant, under the terms of the 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 the Company stock on the date of grant. The January 2020 grant will become vested with respect to fifty percent (50%) of the award on each of December 31, 2020 and December 31, 2021 based on continued provision of services on each vesting date. Also pursuant to the Amended Employment Agreement, Mr. Goldstein will be entitled to receive a grant, under the 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 the Company stock on the date of grant. The January 2021 grant will become vested as of December 31, 2021 based on continued provision of services on the vesting date.





Dale A. Thatcher

(1)

Agreement in effect for the year ended December 31, 2018

On March 14, 2018, the Company and Dale A. Thatcher, a director of the Company, entered into an employment agreement (the "Thatcher Employment Agreement") pursuant to which Mr. Thatcher serves as the Company's Chief Operating Officer. Mr. Thatcher also serves as KICO's President. The Thatcher Employment Agreement became effective as of March 15, 2018 and expires on December 31, 2018.

Pursuant to the Thatcher Employment Agreement, Mr. Thatcher is 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 Thatcher Employment Agreement, the Company granted to Mr. Thatcher 35,715 shares of restricted Common Stock under the 2014 Plan. The shares granted will vest in three equal installments on each of the three anniversaries following the grant date, subject to the terms of the restricted stock grant agreement between the Company and Mr. Thatcher.

(2)

Agreement in effect as of January 1, 2019

On October 16, 2018, the Company and Mr. Thatcher entered into an Employment Agreement effective as of January 1, 2019 and expiring on December 31, 2021 (the "2019 Thatcher Employment Agreement"). Pursuant to the 2019 Thatcher Employment Agreement, Mr. Thatcher will be promoted at such time to succeed Mr. Goldstein as Chief Executive Officer. Mr. Thatcher will continue to serve as a director and will remain President of KICO.

Mr. Thatcher will be entitled to receive an annual base salary of \$500,000 for 2019, \$630,000 for 2020 and no increase in 2021. In addition, Mr. Thatcher is eligible to receive an annual performance bonus equal to 3% of the Company's consolidated income from operations before taxes, exclusive of the Company's consolidated net investment income (loss) and net realized gains (losses) on investments. Pursuant to the 2019 Thatcher Employment Agreement, in the event that Mr. Thatcher's employment is terminated by the Company without cause or he resigns for good reason (each as defined in the 2019 Thatcher Employment Agreement), Mr. Thatcher would be entitled to receive separation payments equal to his then applicable base salary and the 3% bonus for the remainder of the term. Pursuant to the 2019 Thatcher Employment Agreement, Mr. Thatcher will be entitled to receive a grant, under the terms of the 2014 Equity Plan, with respect to 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 the Company stock on the date of grant. Each grant vests ratably over a three year period from the date of grant.



#### Note 12 – Deferred Compensation Plan

On June 18, 2018, the Company adopted the Kingstone Companies, Inc. Deferred Compensation Plan (the "Deferred Compensation Plan"). The Deferred Compensation Plan is offered to a select group ("Participants"), consisting of management and highly compensated employees as a method of recognizing and retaining such Participants. The Deferred Compensation Plan provides for eligible Participants to elect to defer up to 75% of their base compensation and up to 100% of bonuses and other compensation and to have such deferred amounts deemed to be invested in specified investment options. In addition to the Participant deferrals, the Company may choose to make matching contributions to some or all of the Participants in the Deferred Compensation Plan to the extent the Participant did not receive the maximum matching or non-elective contributions permissible under the Company's 401(k) Plan due to limitations under the Internal Revenue Code or the 401(k) Plan. Participants may elect to receive payment of their account balances in a single cash payment or in annual installments for a period of up to ten years. The first payroll subject to the Deferred Compensation Plan was in July 2018. The deferred compensation liability as of September 30, 2018 amounted to \$149,359 and is recorded in accounts payable, accrued expenses and other liabilities in the condensed consolidated balance sheets. The Company made voluntary contributions of \$1,482 for the three months and nine months ended September 30, 2018, which are recorded in other operating expenses in the condensed consolidated statements of income and comprehensive income.

#### Note 13 – Subsequent Events

The Company has evaluated events that occurred subsequent to September 30, 2018 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

On November 7, 2018, the Company's Board of Directors approved a quarterly dividend of \$.10 per share payable in cash on December 14, 2018 to stockholders of record as of the close of business on November 30, 2018 (see Note 8).

#### Employment Agreements

See Note 11 Commitments and Contingencies.



## ITEM 2.

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

#### Overview

We offer property and casualty insurance products to individuals and small businesses through our wholly owned subsidiary, Kingstone Insurance Company ("KICO"). KICO's insureds are located primarily in downstate New York, consisting of New York City, Long Island and Westchester County, although we are actively writing business in New Jersey, Rhode Island, Pennsylvania and Massachusetts. We are licensed in the States of New York, New Jersey, Rhode Island, Massachusetts, Pennsylvania, Connecticut, Maine, New Hampshire and Texas. For the three months and nine months ended September 30, 2018, 92.6% and 94.5% of KICO's direct written premiums came from the New York policies, respectively.

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 commonly 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. These expenses include legal and auditing fees, executive employment costs, interest expense and other costs directly associated with being a public company.

#### Product Lines

Our active 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:** We offer businessowners 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 smaller sized workforces. In addition, we write special multi-peril policies for larger and more specialized businessowners risks, including those with limited residential exposures. Further, we offer commercial umbrella policies written above our supporting commercial lines policies.

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. Underwriting income is a measure of an insurance company's overall operating profitability before items such as investment income, net gains from investments, 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 condensed consolidated financial statements and related notes. In preparing these condensed consolidated financial statements, our management has utilized information, including our past history, industry standards, the current economic environment, and other factors, in forming its estimates and judgments for certain amounts included in the condensed consolidated financial statements, giving due consideration to materiality. It is possible that the ultimate outcome as anticipated by our management in formulating its estimates in these financial statements may not materialize. Application of the critical accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. In addition, other companies may utilize different estimates, which may impact the comparability of our results of operations to those of similar companies.

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







## Consolidated Results of Operations

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

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

| (\$ in thousands)  | Nine months ended September 30, |          |           |          |
|--|---------------------------------|----------|-----------|----------|
|  | 2018                            | 2017     | Change    | Percent  |
| <b>Revenues</b>  |                                 |          |           |          |
| Direct written premiums  | \$107,175                       | \$89,424 | \$17,751  | 19.9%    |
| Assumed written premiums   | 1                               | 18       | (17)      | (94.4)%  |
|  | 107,176                         | 89,442   | 17,734    | 19.8%    |
| Ceded written premiums   |                                 |          |           |          |
| Ceded to quota share treaties in force during the period               | 12,690                          | 18,943   | \$(6,253) | (33.0)%  |
| Return of premiums previously ceded to prior quota share treaties      | (4,553)                         | (7,140)  | 2,587     | (36.2)%  |
| Ceded to quota share treaties  | 8,137                           | 11,803   | (3,666)   | (31.1)%  |
| Ceded to excess of loss treaties                                       | 988                             | 903      | 85        | 9.4%     |
| Ceded to catastrophe treaties  | 10,284                          | 8,013    | 2,271     | 28.3%    |
| Total ceded written premiums   | 19,409                          | 20,719   | (1,310)   | (6.3)%   |
| Net written premiums   | 87,767                          | 68,723   | 19,044    | 27.7%    |
| Change in unearned premiums  |                                 |          |           |          |
| Direct and assumed   | (9,927)                         | (8,449)  | (1,478)   | 17.5%    |
| Ceded to quota share treaties  | (3,364)                         | (5,437)  | 2,073     | (38.1)%  |
| Change in net unearned premiums  | (13,291)                        | (13,886) | 595       | (4.3)%   |
| Premiums earned  |                                 |          |           |          |
| Direct and assumed   | 97,249                          | 80,994   | 16,255    | 20.1%    |
| Ceded to reinsurance treaties  | (22,773)                        | (26,156) | 3,383     | (12.9)%  |
| Net premiums earned  | 74,476                          | 54,838   | 19,638    | 35.8%    |
| Ceding commission revenue  |                                 |          |           |          |
| Excluding the effect of catastrophes                                   | 4,890                           | 8,208    | (3,318)   | (40.4)%  |
| Effect of catastrophes   | (459)                           | -        | (459)     | n/a%     |
| Total ceding commission revenue  | 4,431                           | 8,208    | (3,777)   | (46.0)%  |
| Net investment income  | 4,543                           | 2,917    | 1,626     | 55.7%    |
| Net (losses) gains on investments                                      | (278)                           | 97       | (375)     | (386.6)% |
| Other income   | 962                             | 926      | 36        | 3.9%     |
| Total revenues   | 84,134                          | 66,986   | 17,148    | 25.6%    |
| Expenses   |                                 |          |           |          |
| Loss and loss adjustment expenses                                      |                                 |          |           |          |
| Direct and assumed:  |                                 |          |           |          |
| Loss and loss adjustment expenses excluding the effect of catastrophes | 42,603                          | 31,324   | 11,279    | 36.0%    |

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|  |         |         |           |         |
|--|---------|---------|-----------|---------|
| Losses from catastrophes (1)   | 10,805  | -       | 10,805    | n/a%    |
| Total direct and assumed loss and loss adjustment expenses             | 53,408  | 31,324  | 22,084    | 70.5%   |
| Ceded loss and loss adjustment expenses:                               |         |         |           |         |
| Loss and loss adjustment expenses excluding the effect of catastrophes | 6,984   | 8,503   | (1,519)   | (17.9)% |
| Losses from catastrophes (1)   | 4,685   | -       | 4,685     | n/a%    |
| Total ceded loss and loss adjustment expenses                          | 11,669  | 8,503   | 3,166     | 37.2%   |
| Net loss and loss adjustment expenses:                                 |         |         |           |         |
| Loss and loss adjustment expenses excluding the effect of catastrophes | 35,619  | 22,821  | 12,798    | 56.1%   |
| Losses from catastrophes (1)   | 6,120   | -       | 6,120     | n/a%    |
| Net loss and loss adjustment expenses                                  | 41,739  | 22,821  | 18,918    | 82.9%   |
| Commission expense   |         |         |           |         |
| Commission expense   | 18,411  | 15,491  | 2,920     | 18.8%   |
| Other underwriting expenses  |         |         |           |         |
| Other underwriting expenses  | 15,301  | 12,887  | 2,414     | 18.7%   |
| Other operating expenses   |         |         |           |         |
| Other operating expenses   | 1,774   | 2,732   | (958)     | (35.1)% |
| Depreciation and amortization  |         |         |           |         |
| Depreciation and amortization  | 1,274   | 1,023   | 251       | 24.5%   |
| Interest expense   |         |         |           |         |
| Interest expense   | 1,365   | -       | 1,365     | n/a%    |
| Total expenses   |         |         |           |         |
| Total expenses   | 79,864  | 54,954  | 24,910    | 45.3%   |
| Income from operations before taxes                                    |         |         |           |         |
| Income from operations before taxes                                    | 4,269   | 12,032  | (7,763)   | (64.5)% |
| Income tax expense   |         |         |           |         |
| Income tax expense   | 296     | 3,977   | (3,681)   | (92.6)% |
| Net income   |         |         |           |         |
| Net income   | \$3,973 | \$8,055 | \$(4,082) | (50.7)% |



(1)

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

Nine months ended September 30,

|  | 2018 | 2017 | Percentage Point Change | Percent Change |
|--|------|------|-------------------------|----------------|
|--|------|------|-------------------------|----------------|

Key ratios:

|                                |       |       |      |       |
|--------------------------------|-------|-------|------|-------|
| Net loss ratio                 | 56.0% | 41.6% | 14.4 | 34.6% |
| Net underwriting expense ratio | 38.1% | 35.2% | 2.9  | 8.2%  |
| Net combined ratio             | 94.1% | 76.8% | 17.3 | 22.5% |

Direct Written Premiums

Direct written premiums during the nine months ended September 30, 2018 (“Nine Months 2018”) were \$107,175,000 compared to \$89,424,000 during the nine months ended September 30, 2017 (“Nine Months 2017”). The increase of \$17,751,000, or 19.9%, was primarily due to an increase in policies in force during Nine Months 2018 as compared to Nine Months 2017 driven by continued growth in new business. We wrote more new policies as a result of continued demand for our products in the markets that we serve. We believe that a portion of our growth in new policies is attributable to our upgraded A.M. Best rating of A- that we received in April 2017. During Nine Months 2017, we started writing homeowners policies in New Jersey and Rhode Island. In Nine Months 2018, we started writing homeowners policies in Massachusetts. 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 \$5,919,000 in Nine Months 2018, compared to \$953,000 in Nine Months 2017. Policies in-force increased by 19.3% as of September 30, 2018 compared to September 30, 2017.

Net Written Premiums and Net Premiums Earned

The following table describes the quota share reinsurance ceding rates in effect during Nine Months 2018 and Nine Months 2017. For purposes of the discussion herein, the change in the quota share ceding rates on each of July 1, 2018 and 2017 will be referred to as “the Cut-off”. This table should be referred to in conjunction with the discussions for net written premiums, net premiums earned, ceding commission revenue and net loss and loss adjustment expenses that follow.

|   |                                      |
|---|--------------------------------------|
| Nine months ended September 30,<br>2018 | Nine months ended September 30, 2017 |
|---|--------------------------------------|

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|                      |                      |                      |                      |
|----------------------|----------------------|----------------------|----------------------|
| January 1,           | July 1,              | January 1,           | July 1,              |
| to                   | to                   | to                   | to                   |
| June 30,             | September 30,        | June 30,             | September 30,        |
| ("2017/2019 Treaty") | ("2017/2019 Treaty") | ("2016/2017 Treaty") | ("2017/2019 Treaty") |

Quota share reinsurance rates

|                |        |        |     |        |
|----------------|--------|--------|-----|--------|
| Personal lines | 20%(1) | 10%(1) | 40% | 20%(1) |
|----------------|--------|--------|-----|--------|

(1) 2017/2019 Treaty is a two year treaty, quota share reinsurance rate was reduced to 10% effective July 1, 2018 See "Reinsurance" below for changes to our personal lines quota share treaties effective July 1, 2018 and 2017.





Net written premiums increased \$19,044,000, or 27.7%, to \$87,767,000 in Nine Months 2018 from \$68,723,000 in Nine Months 2017. 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 is currently subject to a quota share treaty. A reduction to the quota share percentage or elimination of a quota share treaty will reduce our ceded written premiums, which will result in a corresponding increase to our net written premiums. The increase in net written premiums is due to growth and the reductions of our personal lines quota share reinsurance rate to 20% and 10% on July 1, 2017 and July 1, 2018, respectively.

#### Change in quota share ceding rate

Effective July 1, 2018, we decreased the quota share ceding rate in our personal lines quota share treaty from 20% to 10%. The Cut-off of this treaty 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. Our quota share ceding rate changed from 40% to 20% in Nine Months 2017 resulting in a \$7,140,000 return of unearned premiums from our reinsurers that were previously ceded. The table below shows the effect of the \$4,553,000 and \$7,140,000 return of ceded premiums on net written premiums for Nine Months 2018 and Nine Months 2017, respectively:

| (\$ in thousands)   | Nine months ended September 30, |          |          |         |
|---|---------------------------------|----------|----------|---------|
|   | 2018                            | 2017     | Change   | Percent |
| Net written premiums  | \$87,767                        | \$68,723 | \$19,044 | 27.7%   |
| Return of premiums previously ceded to prior quota share treaties | 4,553                           | 7,140    | (2,587)  | (36.2)% |
| Net written premiums without the effect of the July 1 Cut-off     | \$83,214                        | \$61,583 | \$21,631 | 35.1%   |

Without the effect of the July 1 Cut-offs, net written premiums increased by \$21,631,000, or 35.1%, in Nine Months 2018 compared to Nine Months 2017.

#### Excess of loss reinsurance treaties

An increase in written premiums will, to a lesser extent, increase the premiums ceded under our excess of loss treaties. In Nine Months 2018, our ceded excess of loss reinsurance premiums increased by \$85,000 over the comparable ceded premiums for Nine Months 2017. The increase was due to an increase in premiums subject to excess of loss reinsurance.

#### Catastrophe reinsurance treaties

Most of the premiums written under our personal lines are also subject to our catastrophe treaties. An increase in our personal lines business gives rise to more property exposure, which increases our exposure to catastrophe risk; therefore, our premiums ceded under catastrophe treaties will increase. This results in an increase in premiums ceded under our catastrophe treaties provided that reinsurance rates are stable or are increasing. In Nine Months 2018, our premiums ceded under catastrophe treaties increased by \$2,271,000 over the comparable ceded premiums for Nine Months 2017. The increase was due to an increase in our catastrophe coverage and an increase in premiums subject to catastrophe reinsurance, partially offset by more favorable reinsurance rates in Nine Months 2018. 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 \$19,638,000, or 35.8 %, to \$74,476,000 in Nine Months 2018 from \$54,838,000 in Nine Months 2017. The increase was due to the increase in written premiums discussed above and our retaining more earned premiums effective July 1, 2017 and 2018, as a result of the reductions of the quota share percentage in our personal lines quota share treaties.

Ceding Commission Revenue

The following table details the quota share provisional ceding commission rates in effect during Nine Months 2018 and Nine Months 2017. This table should be referred to in conjunction with the discussion for ceding commission revenue that follows.

|  | Nine months ended September 30, 2018        |   | Nine months ended September 30, 2017        |   |
|--|---|---|---|---|
|  | January 1, to June 30, ("2017/2019 Treaty") | July 1, to September 30, ("2017/2019 Treaty") | January 1, to June 30, ("2016/2017 Treaty") | July 1, to September 30, ("2017/2019 Treaty") |
| Provisional ceding commission rate on quota share treaty |   |   |   |   |
| Personal lines   | 53%   | 53%   | 52%   | 53%   |

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

| (\$ in thousands)   | Nine months ended September 30, |         |           |         |
|---|---------------------------------|---------|-----------|---------|
|   | 2018                            | 2017    | Change    | Percent |
| Provisional ceding commissions earned                                     | \$5,468                         | \$8,690 | \$(3,222) | (37.1)% |
| Contingent ceding commissions earned                                      |                                 |         |           |         |
| Contingent ceding commissions earned excluding the effect of catastrophes | (578)                           | (482)   | (96)      | 19.9%   |
| Effect of catastrophes on ceding commissions earned                       | (459)                           | -       | (459)     | n/a     |
| Contingent ceding commissions earned                                      | (1,037)                         | (482)   | (555)     | 115.1%  |
| Total ceding commission revenue   | \$4,431                         | \$8,208 | \$(3,777) | (46.0)% |

Ceding commission revenue was \$4,431,000 in Nine Months 2018 compared to \$8,208,000 in Nine Months 2017. The decrease of \$3,777,000, or 46.0%, was due to a decrease in provisional ceding commissions earned as well as a

decrease in contingent ceding commissions earned. The reduction in provisional ceding commissions occurred due to the decision to retain more of our profitable business (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 \$3,222,000 decrease in provisional ceding commissions earned is primarily due to the decreases in the quota share ceding rate: (1) effective July 1, 2018 to 10%, from the 20% rate in effect from July 1, 2017 through June 30, 2018, and (2) effective July 1, 2017 to 20%, from the 40% rate in effect from January 1, 2017 through June 30, 2017; thus there were fewer ceded premiums in Nine Months 2018 available to earn ceding commissions than there were in Nine Months 2017. The decrease was partially offset by an increase in personal lines direct written premiums subject to the quota share and by the one percentage point increase in our provisional ceding commission rate as disclosed in the table above.

### 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 and 2016/2017 Treaty structures limit the amount of contingent ceding commissions that we can receive by setting a higher provisional commission rate. As a result of the higher upfront provisional ceding commissions that we receive, there is only a limited opportunity to earn contingent ceding commissions under these treaties. Under our current "net" treaty structure, catastrophe losses in excess of the \$5,000,000 retention will fall outside of the quota share treaty and such losses will not have an impact on contingent ceding commissions. In Nine Months 2018, catastrophe losses of \$1,497,000 were ceded under our personal lines quota share treaty. These catastrophe losses resulted in the Loss Ratios for the period July 1, 2017 through June 30, 2018 (attributable to the 2017/2019 Treaty) being higher than the contractual Loss Ratio at which provisional ceding commissions were being earned. As a result, we incurred a negative adjustment or reduction to the contingent ceding commissions of \$459,000 relative to what would have been earned had the catastrophe losses not occurred. See "Reinsurance" below for changes to our personal lines quota share treaty effective July 1, 2018.

### Net Investment Income

Net investment income was \$4,543,000 in Nine Months 2018 compared to \$2,917,000 in Nine Months 2017. The increase of \$1,626,000, or 55.7%, was due to an increase in average invested assets in Nine Months 2018. The average yield on invested assets was 3.72% as of September 30, 2018 compared to 3.63% as of September 30, 2017. The pre-tax equivalent yield on invested assets was 3.44% and 3.84% as of September 30, 2018 and 2017, respectively.

Cash and invested assets were \$196,595,000 as of September 30, 2018, compared to \$155,738,000 as of September 30, 2017. The \$40,857,000 increase in cash and invested assets resulted primarily from the net proceeds of approximately \$29,122,000 that we received in December 2017 from our debt offering and increased operating cash flows for the period after September 30, 2017.





#### Net Gains and Losses on Investments

Net losses on investments were \$278,000 in Nine Months 2018 compared to a net gain of \$97,000 in Nine Months 2017. The increased loss of \$375,000, was primarily attributable to an accounting standard change (ASU 2016-01, see Note 2) with respect to the changes in fair value of equity securities and other investments. Historically, the change in unrealized gains (losses) for these investments would flow through other comprehensive income. As a result of the new accounting standard, the change in unrealized gains (losses) is now recorded in the statements of income and comprehensive income. Unrealized gains on our equity securities and other investments in Nine Months 2018 were \$99,000. Realized losses on investments was \$377,000 in Nine Months 2018 compared to realized gains of \$97,000 in Nine Months 2017.

#### Other Income

Other income was \$962,000 in Nine Months 2018 compared to \$926,000 in Nine Months 2017. The increase of \$36,000, or 3.9%, 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 \$41,739,000 in Nine Months 2018 compared to \$22,821,000 in Nine Months 2017. The net loss ratio was 56.0% in Nine Months 2018 compared to 41.6% in Nine Months 2017, an increase of 14.4 percentage points.

The following graph summarizes the changes in the components of net loss ratio for the periods indicated:

(Components may not sum to totals due to rounding)



During Nine Months 2018, the net loss ratio increased compared to Nine Months 2017 primarily due to the impact of catastrophe losses related to First Quarter winter weather. In Nine Months 2018 there have been eight catastrophic events that have affected us, with most of the impact related to several major winter storms. We recorded an 8.2 point impact from catastrophes in Nine Months 2018, driving most of the 14.4 point increase in the overall loss ratio from Nine Months 2017, for which there was no impact from catastrophe events. In addition to the impact of catastrophes, we have recorded 0.2 points of unfavorable prior year loss development in Nine Months 2018 compared to 0.5 points of favorable prior year development in Nine Months 2017. The underlying loss ratio excluding the impact of catastrophes and prior year development was 47.7% in Nine Months 2018, an increase of 5.6 points from the 42.1% underlying loss ratio for Nine Months 2017. The underlying loss ratio increased due to a greater impact from large claims in Nine Months 2018 compared to Nine Months 2017 and higher average claim severity on smaller claims. See table below under “Additional Financial Information” summarizing net loss ratios by line of business.

#### Commission Expense

Commission expense was \$18,411,000 in Nine Months 2018 or 18.9% of direct earned premiums. Commission expense was \$15,491,000 in Nine Months 2017 or 19.1% of direct earned premiums. The increase of \$2,920,000 is primarily due to the increase in direct earned premiums in Nine Months 2018 as compared to Nine Months 2017.

#### Other Underwriting Expenses

Other underwriting expenses were \$15,301,000 in Nine Months 2018 compared to \$12,887,000 in Nine Months 2017. The increase of \$2,414,000, or 18.7%, was primarily due to expenses related to growth in direct written premiums. We are also incurring expenses related to expansion into the states where we are newly licensed to write business (“Expansion Expenses”). 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. Expansion Expenses were \$1,237,000 in Nine Months 2018 compared to \$738,000 in Nine Months 2017. The increase of \$499,000 includes the costs of salaries and employment costs, professional fees, IT and data services specifically attributable to the expansion into new states.

Core salaries and employment costs were \$6,233,000 in Nine Months 2018 compared to \$5,451,000 in Nine Months 2017. The increase of \$782,000, or 14.3%, was less than the 19.9% increase in total direct written premiums, which is not yet materially affected by our Expansion business. The increase in employment costs was due to hiring of additional staff to service our current level of business and anticipated growth in volume, hiring our new Chief Operating Officer in March 2018 as well as annual increases in salaries. Growth related to our Expansion business creates a lag in net premiums earned compared to direct written premiums for that business. This lag in net premiums earned along with the reduction to quota share rates distorts net underwriting expense ratio comparisons between periods. Therefore, we believe that reviewing the ratio of Core other underwriting expenses to Core net premiums earned offers a more consistent comparison between periods and is a more accurate indicator of our overall other underwriting expense efficiency. The following table breaks out the Core and Expansion components of our underwriting expense ratio for the periods indicated:



|   | Nine months ended \$ or |          |          |
|---|-------------------------|----------|----------|
|   | September 30,           |          | Point    |
|   | 2018                    | 2017     | Change   |
| Net premiums earned   |                         |          |          |
| Core  | \$72,379                | \$54,730 | \$17,649 |
| Expansion   | 2,097                   | 108      | 1,989    |
| Total   | \$74,476                | \$54,838 | \$19,638 |
| Other underwriting expenses   |                         |          |          |
| Core  | \$14,063                | \$12,146 | \$1,917  |
| Expansion   | 1,238                   | 741      | 497      |
| Total   | \$15,301                | \$12,887 | \$2,414  |
| Other underwriting expenses as a percentage<br>of net premiums earned |                         |          |          |
| Core  | 19.4%                   | 22.2%    | -2.8%    |
| Expansion   | 59.0%                   | 686.1%   | -627.1%  |
| Total   | 20.6%                   | 23.5%    | -2.9%    |

The ratio of Core other underwriting expenses to Core net premiums earned was 20.6% in Nine Months 2018 compared to 23.5% in Nine Months 2017, a decrease of 2.9 percentage points.

Our net underwriting expense ratio in Nine Months 2018 was 38.1% compared to 35.2% in Nine Months 2017. The following table shows the individual components of our net underwriting expense ratio for the periods indicated:

|  | Nine months<br>ended |      |              |
|--|----------------------|------|--------------|
|  | September 30,        |      | Percentage   |
|  | 2018                 | 2017 | Point Change |

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|  |        |         |       |
|--|--------|---------|-------|
| Ceding commission revenue - provisional            | (7.3)% | (15.8)% | 8.5   |
| Ceding commission revenue - contingent             | 1.4    | 0.9     | 0.5   |
| Other income                                       | (1.3)  | (1.6)   | 0.3   |
| Acquisition costs and other underwriting expenses: |        |         |       |
| Commission expense                                 | 24.7   | 28.2    | (3.5) |
|  | 17.5   | 11.7    | 5.8   |
| Other underwriting expenses                        |        |         |       |
| Core   |        |         |       |
| Employment costs                                   | 8.4    | 9.9     | (1.5) |
| Other Core Expenses                                | 10.5   | 12.3    | (1.8) |
| Total Core Expenses                                | 18.9   | 22.2    | (3.3) |
| Expansion Expenses                                 | 1.7    | 1.3     | 0.4   |
| Total other underwriting expenses                  | 20.6   | 23.5    | (2.9) |
| Net underwriting expense ratio                     | 38.1%  | 35.2%   | 2.9   |

The decrease in our other underwriting expense ratio excluding the impact of ceding commission revenue and commission expense was driven by a decline of 3.3 points from the impact of employment costs and other expenses attributable to our growing Core business, partially offset by the impact from increased costs related to Expansion business.



The overall increase of 2.9 percentage points in the net underwriting expense ratio was driven almost entirely by the change in our quota share ceding rates and its impact on provisional ceding commission revenue as a result of the additional retention resulting from the Cut-off to our quota share treaty on July 1, 2018. The components of our net underwriting expense ratio related to commissions and other underwriting expenses improved in nearly all categories, but this was more than offset by reductions in the reinsurance ceding commission revenue components.

#### Other Operating Expenses

Other operating expenses, related to the expenses of our holding company, were \$1,774,000 in Nine Months 2018 compared to \$2,732,000 in Nine Months 2017. The decrease in Nine Months 2018 of \$958,000, or 35.1%, was primarily due to decreases in executive bonus compensation, partially offset by an increase in salary and equity compensation due to the hiring of Dale A. Thatcher, our new Chief Operating Officer, in March 2018.

#### Depreciation and Amortization

Depreciation and amortization was \$1,274,000 in Nine Months 2018 compared to \$1,023,000 in Nine Months 2017. The increase of \$251,000, or 24.5%, in depreciation and amortization was primarily due to depreciation of our new system platform for processing business being written in Expansion states. The increase was also impacted by newly purchased assets used to upgrade our systems infrastructure and improvements to the Kingston, New York home office building from which we operate.

#### Interest Expense

Interest expense in Nine Months 2018 was \$1,365,000 and -0- in Nine Months 2017. We incurred interest expense in connection with our \$30.0 million issuance of long-term debt in December 2017.

#### Income Tax Expense

Income tax expense in Nine Months 2018 was \$296,000, which resulted in an effective tax rate of 6.9%. Income tax expense in Nine Months 2017 was \$3,977,000, which resulted in an effective tax rate of 33.1%. The change in our effective tax rate includes the change in the federal tax rate from 35% to 21%. In addition, permanent differences in Nine Months 2018 had a greater impact on reducing the current year effective tax rate due to a decrease in income before taxes in Nine Months 2018 compared to the Nine Months 2017 amount. Income before taxes was \$4,269,000 in Nine Months 2018 compared to income before taxes of \$12,031,000 in Nine Months 2017.

#### Net Income

Net income was \$3,973,000 in Nine Months 2018 compared to net income of \$8,055,000 in Nine Months 2017. The decrease in net income of \$4,082,000, (or 50.7%), was due to the circumstances described above, which caused the increase in our net loss ratio, decrease in ceding commission revenue, net losses on investments, increases in other underwriting expenses, depreciation and amortization and interest expense, partially offset by the increase in our net premiums earned, net investment income and decrease in other operating expenses.





Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

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

| (\$ in thousands)  | Three months ended September 30, |          |         |          |
|--|----------------------------------|----------|---------|----------|
|  | 2018                             | 2017     | Change  | Percent  |
| <b>Revenues</b>  |                                  |          |         |          |
| Direct written premiums  | \$38,785                         | \$32,840 | \$5,945 | 18.1%    |
| Assumed written premiums   | -                                | 12       | (12)    | (100.0)% |
|  | 38,785                           | 32,852   | 5,933   | 18.1%    |
| Ceded written premiums   |                                  |          |         |          |
| Ceded to quota share treaties in force during the period               | 3,080                            | 4,635    | (1,555) | (33.5)%  |
| Return of premiums previously ceded to prior quota share treaties      | (4,553)                          | (7,140)  | 2,587   | (36.2)%  |
| Ceded to quota share treaties  | (1,473)                          | (2,505)  | 1,032   | (41.2)%  |
| Ceded to excess of loss treaties                                       | 392                              | 267      | 125     | 46.8%    |
| Ceded to catastrophe treaties  | 3,764                            | 2,829    | 935     | 33.1%    |
| Total ceded written premiums   | 2,683                            | 591      | 2,092   | 354.0%   |
| Net written premiums   | 36,102                           | 32,261   | 3,841   | 11.9%    |
| Change in unearned premiums  |                                  |          |         |          |
| Direct and assumed   | (4,435)                          | (4,409)  | (26)    | 0.6%     |
| Ceded to quota share treaties  | (4,133)                          | (6,339)  | 2,206   | (34.8)%  |
| Change in net unearned premiums  | (8,568)                          | (10,748) | 2,180   | (20.3)%  |
| Premiums earned  |                                  |          |         |          |
| Direct and assumed   | 34,351                           | 28,445   | 5,906   | 20.8%    |
| Ceded to reinsurance treaties  | (6,817)                          | (6,931)  | 114     | (1.6)%   |
| Net premiums earned  | 27,534                           | 21,514   | 6,020   | 28.0%    |
| Ceding commission revenue  |                                  |          |         |          |
| Excluding the effect of catastrophes                                   | 1,045                            | 1,718    | (673)   | (39.2)%  |
| Effect of catastrophes   | -                                | -        | -       | n/a%     |
| Total ceding commission revenue  | 1,045                            | 1,718    | (673)   | (39.2)%  |
| Net investment income  | 1,602                            | 1,033    | 569     | 55.1%    |
| Net gains on investments   | 352                              | 21       | 331     | 1,576.2% |
| Other income   | 353                              | 328      | 25      | 7.6%     |
| Total revenues   | 30,886                           | 24,614   | 6,272   | 25.5%    |
| Expenses   |                                  |          |         |          |
| Loss and loss adjustment expenses                                      |                                  |          |         |          |
| Direct and assumed:  |                                  |          |         |          |
| Loss and loss adjustment expenses excluding the effect of catastrophes | 16,705                           | 8,150    | 8,555   | 105.0%   |
| Losses from catastrophes (1)   | 244                              | -        | 244     | n/a%     |
| Total direct and assumed loss and loss adjustment expenses             | 16,949                           | 8,150    | 8,799   | 108.0%   |

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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Ceded loss and loss adjustment expenses:                               |         |         |         |         |
| Loss and loss adjustment expenses excluding the effect of catastrophes | 3,798   | 1,077   | 2,721   | 252.6%  |
| Losses from catastrophes (1)   | (146)   | -       | (146)   | n/a%    |
| Total ceded loss and loss adjustment expenses                          | 3,652   | 1,077   | 2,575   | 239.1%  |
| Net loss and loss adjustment expenses:                                 |         |         |         |         |
| Loss and loss adjustment expenses excluding the effect of catastrophes | 12,907  | 7,073   | 5,834   | 82.5%   |
| Losses from catastrophes (1)   | 390     | -       | 390     | n/a%    |
| Net loss and loss adjustment expenses                                  | 13,297  | 7,073   | 6,224   | 88.0%   |
| Commission expense   | 6,594   | 5,500   | 1,094   | 19.9%   |
| Other underwriting expenses  | 5,194   | 4,475   | 719     | 16.1%   |
| Other operating expenses   | 683     | 1,069   | (386)   | (36.1)% |
| Depreciation and amortization  | 440     | 379     | 61      | 16.1%   |
| Interest expense   | 456     | -       | 456     | n/a%    |
| Total expenses   | 26,665  | 18,496  | 8,169   | 44.2%   |
| Income from operations before taxes                                    | 4,221   | 6,118   | (1,897) | (31.0)% |
| Income tax expense   | 287     | 2,044   | (1,757) | (86.0)% |
| Net income   | \$3,934 | \$4,074 | \$(140) | (3.4)%  |



(1)

The three months ended September 30, 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.

Three months ended September 30,

|  | 2018 | 2017 | Percentage Point Change | Percent Change |
|--|------|------|-------------------------|----------------|
|--|------|------|-------------------------|----------------|

Key ratios:

|                                |       |       |      |       |
|--------------------------------|-------|-------|------|-------|
| Net loss ratio                 | 48.3% | 32.9% | 15.4 | 46.8% |
| Net underwriting expense ratio | 37.7% | 36.9% | 0.8  | 2.2%  |
| Net combined ratio             | 86.0% | 69.8% | 16.2 | 23.2% |

Direct Written Premiums

Direct written premiums during the three months ended September 30, 2018 (“Third Quarter 2018”) were \$38,785,000 compared to \$32,840,000 during the three months ended September 30, 2017 (“Third Quarter 2017”). The increase of \$5,945,000, or 18.1%, was primarily due to an increase in policies in force during Third Quarter 2018 as compared to Third Quarter 2017 driven by continued growth in new business. We wrote more new policies as a result of continued demand for our products in the markets that we serve. We believe that a portion of our growth in new policies is attributable to our upgraded A.M. Best rating of A- that we received in April 2017. During 2017 and 2018, we started writing homeowners policies in our aforementioned Expansion markets. Direct written premiums from our Expansion business were \$2,855,000 in Third Quarter 2018, compared to \$724,000 in Third Quarter 2017. Policies in-force increased by 19.3% as of September 30, 2018 compared to September 30, 2017.

Net Written Premiums and Net Premiums Earned

The following table describes the quota share reinsurance ceding rates in effect during Third Quarter 2018 and Third Quarter 2017. For purposes of the discussion herein, the change in the quota share ceding rates on each of July 1, 2018 and 2017 will be referred to as “the Cut-off”. This table should be referred to in conjunction with the discussions for net written premiums, net premiums earned, ceding commission revenue and net loss and loss adjustment expenses that follow.

|  | Three months ended<br>September 30, |      |
|--|-------------------------------------|------|
|  | 2018                                | 2017 |

|  |                              |                              |
|--|------------------------------|------------------------------|
|  | ("2017/2017/2019<br>Treaty") | ("2017/2017/2019<br>Treaty") |
|--|------------------------------|------------------------------|

Quota share reinsurance rates

|                |     |     |
|----------------|-----|-----|
| Personal lines | 10% | 20% |
|----------------|-----|-----|

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

Net written premiums increased \$3,841,000, or 11.9%, to \$36,102,000 in Third Quarter 2018 from \$32,261,000 in Third Quarter 2017. 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 is currently subject to a quota share treaty. A reduction to the quota share percentage or elimination of a quota share treaty will reduce our ceded written premiums, which will result in a corresponding increase to our net written premiums. The increase in net written premiums is due to growth and the reduction of our personal lines quota share reinsurance rate to 10% on July 1, 2018.



## Change in quota share ceding rate

Effective July 1, 2018, we decreased the quota share ceding rate in our personal lines quota share treaty from 20% to 10%. The Cut-off of this treaty 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. Our quota share ceding rate changed from 40% to 20% in Third Quarter 2017 resulting in a \$7,140,000 return of unearned premiums from our reinsurers that were previously ceded. The table below shows the effect of the \$4,553,000 and \$7,140,000 return of ceded premiums on net written premiums for Third Quarter 2018 and Third Quarter 2017, respectively:

| (\$ in thousands)   | Three months ended September 30, |          |         |         |
|---|----------------------------------|----------|---------|---------|
|   | 2018                             | 2017     | Change  | Percent |
| Net written premiums  | \$36,102                         | \$32,261 | \$3,841 | 11.9%   |
| Return of premiums previously ceded to prior quota share treaties | 4,553                            | 7,140    | (2,587) | (36.2)% |
| Net written premiums without the effect of the July 1 Cut-off     | \$31,549                         | \$25,121 | \$6,428 | 25.6%   |

Without the effect of the July 1 Cut-offs, net written premiums increased by \$6,428,000, or 25.6%, in 2018 compared to 2017.

## Excess of loss reinsurance treaties

An increase in written premiums will, to a lesser extent, increase the premiums ceded under our excess of loss treaties. In Third Quarter 2018, our ceded excess of loss reinsurance premiums increased by \$125,000 over the comparable ceded premiums for Third Quarter 2017. The decrease was due to an increase in premiums subject to excess of loss reinsurance.

## Catastrophe reinsurance treaties

Most of the premiums written under our personal lines are also subject to our catastrophe treaty. An increase in our personal lines business gives rise to more property exposure, which increases our exposure to catastrophe risk; therefore, our premiums ceded under catastrophe treaties will increase. This results in an increase in premiums ceded under our catastrophe treaty provided that reinsurance rates are stable or are increasing. In Third Quarter 2018, our premiums ceded under catastrophe treaties increased by \$935,000 over the comparable ceded premiums for Third Quarter 2017. The increase was due to an increase in our catastrophe coverage and an increase in premiums subject to catastrophe reinsurance, partially offset by more favorable reinsurance rates in Third Quarter 2018. Our ceded catastrophe premiums are paid based on the total direct written premiums subject to the catastrophe reinsurance treaty.

## Net premiums earned

Net premiums earned increased \$6,020,000, or 28.0 %, to \$27,534,000 in Third Quarter 2018 from \$21,514,000 in Third Quarter 2017. The increase was due to the increase in written premiums discussed above and our retaining more earned premiums effective July 1, 2018, as a result of the reduction of the quota share percentage in our personal lines quota share treaty.







## Ceding Commission Revenue

The following table details the quota share provisional ceding commission rates in effect during Third Quarter 2018 and Third Quarter 2017. This table should be referred to in conjunction with the discussion for ceding commission revenue that follows.

Three months ended  
September 30,  
2018 2017  
("2017/2019  
Treaty") ("2017/2019 Treaty")

|  |     |     |
|--|-----|-----|
| Provisional ceding commission rate on quota share treaty |     |     |
| Personal lines   | 53% | 53% |

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

| (\$ in thousands)   | Three months ended September 30, |         |         |         |
|---|----------------------------------|---------|---------|---------|
|   | 2018                             | 2017    | Change  | Percent |
| Provisional ceding commissions earned                                     | \$1,255                          | \$1,922 | \$(667) | (34.7)% |
| Contingent ceding commissions earned                                      |                                  |         |         |         |
| Contingent ceding commissions earned excluding the effect of catastrophes | (210)                            | (204)   | (6)     | 2.9%    |
| Effect of catastrophes on ceding commissions earned                       | -                                | -       | -       | n/a%    |
| Contingent ceding commissions earned                                      | (210)                            | (204)   | (6)     | 2.9%    |
| Total ceding commission revenue   | \$1,045                          | \$1,718 | \$(673) | (39.2)% |

Ceding commission revenue was \$1,045,000 in Third Quarter 2018 compared to \$1,718,000 in Third Quarter 2017. The decrease of \$673,000, or 39.2%, was due to a decrease in provisional ceding commissions earned as well as a decrease in contingent ceding commissions earned. The reduction in provisional ceding commissions occurred due to us making the decision to retain more of our profitable business (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. In Third Quarter 2018 our provisional ceding rate was 53% under the 2017/2019 Treaty, no change from Third Quarter 2017. The \$667,000 decrease in provisional ceding commissions earned is primarily due to 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; thus there were less ceded

premiums in Third Quarter 2018 available to earn ceding commissions than there were in Third Quarter 2017. The decrease was partially offset by an increase in personal lines direct written premiums subject to the quota share.



### Contingent Ceding Commissions Earned

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

The 2017/2019 Treaty structure limits the amount of contingent ceding commissions that we can receive by setting a higher provisional commission rate. As a result of the higher upfront provisional ceding commissions that we receive, there is only a limited opportunity to earn contingent ceding commissions under these treaties. Under our current "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. Contingent ceding commissions were not affected by catastrophes in Third Quarter 2018 and Third Quarter 2017. See "Reinsurance" below for changes to our personal lines quota share treaty effective July 1, 2018.

### Net Investment Income

Net investment income was \$1,602,000 in Third Quarter 2018 compared to \$1,033,000 in Third Quarter 2017. The increase of \$569,000, or 55.1%, was due to an increase in average invested assets in Third Quarter 2018. The average yield on invested assets was 3.72% as of September 30, 2018 compared to 3.63% as of September 30, 2017. The pre-tax equivalent yield on invested assets was 3.44% and 3.84% as of September 30, 2018 and 2017, respectively.

Cash and invested assets were \$196,595,000 as of September 30, 2018, compared to \$155,738,000 as of September 30, 2017. The \$40,857,000 increase in cash and invested assets resulted primarily from the net proceeds of approximately \$29,122,000 that we received in December 2017 from our debt offering and increased operating cash flows for the period after September 30, 2017.

### Net Gains and Losses on Investments

Net gains on investments were \$352,000 in Third Quarter 2018 compared to net gains of \$21,000 in Third Quarter 2017. The increase of \$331,000, was primarily attributable to an accounting standard change (ASU 2016-01, see Note 2) with respect to the changes in fair value of equity securities and other investments. Historically, the change in unrealized gains (losses) for equity securities and other investments would flow through other comprehensive income. As a result of the new accounting standard, the change in unrealized gains (losses) for these investments is now recorded in the statements of income and comprehensive income. Unrealized gains on our equity securities and other investments in Third Quarter 2018 were \$409,000. Realized losses on investments were \$57,000 in Third Quarter 2018 compared to realized gains of \$21,000 in Third Quarter 2017.

### Other Income

Other income was \$353,000 in Third Quarter 2018 compared to \$328,000 in Third Quarter 2017. The increase of \$25,000, or 7.6%, was primarily due to additional write-offs offset by an increase in installment and other fees earned in our insurance underwriting business.



## Net Loss and LAE

Net loss and LAE was \$13,297,000 in Third Quarter 2018 compared to \$7,073,000 in Third Quarter 2017. The net loss ratio was 48.3% in Third Quarter 2018 compared to 32.9% in Third Quarter 2017, an increase of 15.4 percentage points.

The following graph summarizes the changes in the components of net loss ratio for the periods indicated:

(Components may not sum to totals due to rounding).

During Third Quarter 2018, the net loss ratio increased compared to Third Quarter 2017 primarily due to an increase in the underlying loss ratio excluding catastrophes and prior year loss development. The underlying loss ratio increased 14.3 points to 47.3% compared to 33.0% for Third Quarter 2017. The increase was driven by a significantly higher impact from large claims in Third Quarter 2018 compared to Third Quarter 2017. During the quarter, there was one full limit personal lines fire claim that had a net impact of 3.3 points on the loss ratio and there were seven other large fire claims, compared with just two during Third Quarter 2017. In addition to the increase in the underlying loss ratio, there were two additional PCS catastrophe events that affected the Company during Third Quarter 2018. These two events were rainstorms in August and September. In addition to these two new events, there were some additional losses recorded from catastrophe events from the second quarter of 2018, but development on the first quarter 2018 winter catastrophe events was slightly favorable during the quarter. The impact from catastrophe events during Third Quarter 2018 was 1.4 points, compared to no catastrophe impact recorded during Third Quarter 2017. Prior year loss development was favorable for the quarter, with a 0.4 point beneficial impact on the loss ratio, compared to a 0.2 point favorable impact in Third Quarter 2017. See table below under “Additional Financial Information” summarizing net loss ratios by line of business.





## Commission Expense

Commission expense was \$6,594,000 in Third Quarter 2018 or 19.2% of direct earned premiums. Commission expense was \$5,500,000 in Third Quarter 2017 or 19.3% of direct earned premiums. The increase of \$1,094,000 is due to the increase in direct earned premiums in Third Quarter 2018 as compared to Third Quarter 2017, which grew by approximately 20.8%.

## Other Underwriting Expenses

Other underwriting expenses were \$5,194,000 in Third Quarter 2018 compared to \$4,475,000 in Third Quarter 2017. The increase of \$719,000, or 16.1%, was primarily due to expenses related to growth in direct written premiums. We are also incurring expenses related to our Expansion Expenses. Expansion Expenses were \$447,000 in Third Quarter 2018 compared to \$231,000 in Third Quarter 2017. The increase of \$216,000 includes the costs of salaries and employment costs, professional fees, IT and data services specifically attributable to the expansion into new states.

Core salaries and employment costs were \$2,130,000 in Third Quarter 2018 compared to \$1,946,000 in Third Quarter 2017. The increase of \$184,000, or 9.5%, was less than the 18.1% increase in total direct written premiums, which is not yet materially affected by our Expansion business. The increase in employment costs was due to hiring of additional staff to service our current level of business and anticipated growth in volume, hiring our Chief Operating Officer in March 2018 as well as annual increases in salaries. Growth related to our Expansion business creates a lag in net premiums earned compared to direct written premiums for that business. This lag in net premiums earned along with the reduction to quota share rates distorts net underwriting expense ratio comparisons between periods. Therefore, we believe that reviewing the ratio of Core other underwriting expenses to Core net premiums earned offers a more consistent comparison between periods and is a more accurate indicator of our overall other underwriting expense efficiency. The following table breaks out the Core and Expansion components of our underwriting expense ratio for the periods indicated:

|                             | Three months ended |          | \$ or   |
|-----------------------------|--------------------|----------|---------|
|                             | September 30,      |          | Point   |
|                             | 2018               | 2017     | Change  |
| Net premiums earned         |                    |          |         |
| Core                        | \$26,434           | \$21,411 | \$5,023 |
| Expansion                   | 1,100              | 103      | 997     |
| Total                       | \$27,534           | \$21,514 | \$6,020 |
| Other underwriting expenses |                    |          |         |
| Core                        | \$4,747            | \$4,244  | \$503   |

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|           |         |         |       |
|-----------|---------|---------|-------|
| Expansion | 447     | 231     | 216   |
| Total     | \$5,194 | \$4,475 | \$719 |

Other underwriting expenses as a percentage  
of net premiums earned

|           |       |        |         |
|-----------|-------|--------|---------|
| Core      | 18.0% | 19.8%  | -1.8%   |
| Expansion | 40.6% | 224.3% | -183.6% |
| Total     | 18.9% | 20.8%  | -1.9%   |



The ratio of Core other underwriting expenses to Core net premiums earned was 18.0 % in Third Quarter 2018 compared to 19.8% in Third Quarter 2017, a decrease of 1.8 percentage points.

Our net underwriting expense ratio in Third Quarter 2018 was 37.7% compared to 36.9% in Third Quarter 2017. The following table shows the individual components of our net underwriting expense ratio for the periods indicated:

|  | Three months ended |                    | Percentage Point Change |
|--|--------------------|--------------------|-------------------------|
|  | September 30, 2018 | September 30, 2017 |                         |
| Ceding commission revenue - provisional            | (4.6)%             | (8.9)%             | 4.3                     |
| Ceding commission revenue - contingent             | 0.8                | 0.9                | (0.1)                   |
| Other income                                       | (1.3)              | (1.5)              | 0.2                     |
| Acquisition costs and other underwriting expenses: |                    |                    |                         |
| Commission expense                                 | 23.9               | 25.6               | (1.7)                   |
| Other underwriting expenses                        | 18.8               | 16.1               | 2.7                     |
| Core   |                    |                    |                         |
| Employment costs                                   | 7.7                | 9.0                | (1.3)                   |
| Other Core Expenses                                | 9.6                | 10.7               | (1.1)                   |
| Total Core Expenses                                | 17.3               | 19.7               | (2.4)                   |
| Expansion Expenses                                 | 1.6                | 1.1                | 0.5                     |
| Total other underwriting expenses                  | 18.9               | 20.8               | (1.9)                   |
| Net underwriting expense ratio                     | 37.7%              | 36.9%              | 0.8                     |

The decrease in our other underwriting expense ratio excluding the impact of ceding commission revenue and commission expense was driven by a decline of 2.4 points in the impact from employment costs and other expenses attributable to our growing Core business, partially offset by the impact from increased costs related to Expansion business.

The overall increase of 0.8 percentage points in the net underwriting expense ratio was driven almost entirely by the change in our quota share ceding rates and its impact on provisional ceding commission revenue as a result of the additional retention resulting from the Cut-off to our quota share treaty on July 1, 2018.

#### Other Operating Expenses

Other operating expenses, related to the expenses of our holding company, were \$683,000 in Third Quarter 2018 compared to \$1,069,000 in Third Quarter 2017. The decrease in Third Quarter 2018 of \$386,000, or 36.1%, was primarily due to decreases in executive bonus compensation, partially offset by an increase in salary and equity compensation due to the hiring of our new Chief Operating Officer in March 2018.

### Depreciation and Amortization

Depreciation and amortization was \$440,000 in Third Quarter 2018 compared to \$379,000 in Third Quarter 2017. The increase of \$61,000, or 16.1%, in depreciation and amortization was primarily due to depreciation of our new system platform for processing business being written in Expansion states. The increase was also impacted by newly purchased assets used to upgrade our systems infrastructure and improvements to the Kingston, New York home office building from which we operate.



### Interest Expense

Interest expense in Third Quarter 2018 was \$456,000 and -0- in Third Quarter 2017. We incurred interest expense in connection with our \$30.0 million issuance of long-term debt in December 2017.

### Income Tax Expense

Income tax expense in Third Quarter 2018 was \$287,000, which resulted in an effective tax rate of 6.8%. Income tax expense in Third Quarter 2017 was \$2,044,000, which resulted in an effective tax rate of 33.4%. The change in our effective tax rate includes the change in the federal tax rate from 35% to 21%. In addition, permanent differences in Third Quarter 2018 had a greater impact on reducing the current year effective tax rate due to a decrease in income before taxes in Third Quarter 2018 compared to the Third Quarter 2017 amount. Income before taxes was \$4,221,000 in Third Quarter 2018 compared to income before taxes of \$6,118,000 in Third Quarter 2017.

### Net Income

Net income was \$3,934,000 in Third Quarter 2018 compared to net income of \$4,074,000 in Third Quarter 2017. The decrease in net income of \$140,000, or 3.4%, was due to the circumstances described above, which caused the increase in our net loss ratio, decrease in ceding commission revenue, net losses on investments, increases in other underwriting expenses, depreciation and amortization and interest expense, partially offset by the increase in our net premiums earned, net investment income and decrease in other operating expenses.





## Additional Financial Information

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

|   | For the Three Months Ended |              | For the Nine Months Ended |              |
|---|----------------------------|--------------|---------------------------|--------------|
|   | September 30,              |              | September 30,             |              |
|   | 2018                       | 2017         | 2018                      | 2017         |
| Gross premiums written:   |                            |              |                           |              |
| Personal lines  | \$32,544,609               | \$26,729,634 | \$87,022,189              | \$69,331,085 |
| Commercial lines  | 3,807,533                  | 3,634,037    | 12,825,369                | 11,380,912   |
| Livery physical damage  | 2,363,844                  | 2,422,352    | 7,142,413                 | 8,549,878    |
| Other(1)  | 69,486                     | 65,778       | 186,285                   | 180,086      |
| Total   | \$38,785,472               | \$32,851,801 | \$107,176,256             | \$89,441,961 |
| Net premiums written:   |                            |              |                           |              |
| Personal lines  |                            |              |                           |              |
| Excluding the effect of quota share adjustments on July 1         | \$25,799,427               | \$19,373,782 | \$64,463,230              | \$42,684,254 |
| Return of premiums previously ceded to prior quota share treaties | 4,553,345                  | 7,140,088    | 4,553,345                 | 7,140,088    |
| Personal lines (2)  | 30,352,772                 | 26,513,870   | 69,016,575                | 49,824,342   |
| Commercial lines  | 3,311,706                  | 3,250,326    | 11,438,135                | 10,196,459   |
| Livery physical damage  | 2,363,844                  | 2,422,352    | 7,142,413                 | 8,549,878    |
| Other(1)  | 73,449                     | 74,771       | 169,709                   | 152,245      |
| Total   | \$36,101,771               | \$32,261,319 | \$87,766,832              | \$68,722,924 |
| Net premiums earned:  |                            |              |                           |              |
| Personal lines (2)  | \$21,537,581               | \$15,395,435 | \$56,809,219              | \$37,125,043 |
| Commercial lines  | 3,542,230                  | 3,125,137    | 10,195,912                | 8,953,476    |
| Livery physical damage  | 2,398,005                  | 2,939,032    | 7,320,065                 | 8,616,365    |
| Other(1)  | 56,091                     | 54,804       | 150,942                   | 142,999      |
| Total   | \$27,533,907               | \$21,514,408 | \$74,476,138              | \$54,837,883 |
| Net loss and loss adjustment expenses (3):                        |                            |              |                           |              |

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|                                      |              |             |              |              |
|--------------------------------------|--------------|-------------|--------------|--------------|
| Personal lines                       | \$9,652,796  | \$3,553,087 | \$31,096,528 | \$13,304,934 |
| Commercial lines                     | 2,263,789    | 1,535,862   | 5,514,051    | 4,294,440    |
| Livery physical damage               | 894,874      | 1,417,332   | 3,160,670    | 3,643,007    |
| Other(1)                             | (63,570)     | 10,226      | 313,408      | 32,824       |
| Unallocated loss adjustment expenses | 548,819      | 556,816     | 1,654,466    | 1,546,036    |
| Total                                | \$13,296,708 | \$7,073,323 | \$41,739,123 | \$22,821,241 |

Net loss ratio (3):

|                        |         |       |        |       |
|------------------------|---------|-------|--------|-------|
| Personal lines         | 44.8%   | 23.1% | 54.7%  | 35.8% |
| Commercial lines       | 63.9%   | 49.1% | 54.1%  | 48.0% |
| Livery physical damage | 37.3%   | 48.2% | 43.2%  | 42.3% |
| Other(1)               | -113.3% | 18.7% | 207.6% | 23.0% |
| Total                  | 48.3%   | 32.9% | 56.0%  | 41.6% |

(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)

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

(3)

See discussions above with regard to “Net Loss and LAE”, as to catastrophe losses in 2018.



## Insurance Underwriting Business on a Standalone Basis

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

|  | Three months ended |              | Nine months ended |              |
|--|--------------------|--------------|-------------------|--------------|
|  | September 30,      |              | September 30,     |              |
|  | 2018               | 2017         | 2018              | 2017         |
| <b>Revenues</b>  |                    |              |                   |              |
| Net premiums earned                                      | \$27,533,907       | \$21,514,408 | \$74,476,138      | \$54,837,883 |
| Ceding commission revenue                                | 1,044,529          | 1,717,610    | 4,430,855         | 8,208,000    |
| Net investment income                                    | 1,544,327          | 1,033,307    | 4,459,479         | 2,917,111    |
| Net gains (losses) on investments                        | 346,300            | 20,998       | (283,061)         | 96,915       |
| Other income   | 352,476            | 317,269      | 937,264           | 880,930      |
| Total revenues   | 30,821,539         | 24,603,592   | 84,020,675        | 66,940,839   |
| <b>Expenses</b>  |                    |              |                   |              |
| Loss and loss adjustment expenses                        | 13,296,708         | 7,073,323    | 41,739,123        | 22,821,241   |
| Commission expense                                       | 6,594,323          | 5,500,483    | 18,411,460        | 15,491,027   |
| Other underwriting expenses                              | 5,193,679          | 4,475,455    | 15,301,168        | 12,887,488   |
| Depreciation and amortization                            | 440,383            | 378,518      | 1,273,975         | 1,023,390    |
| Total expenses   | 25,525,093         | 17,427,779   | 76,725,726        | 52,223,146   |
| Income from operations                                   | 5,296,446          | 7,175,813    | 7,294,949         | 14,717,693   |
| Income tax expense                                       | 1,075,104          | 2,399,048    | 1,452,750         | 4,911,977    |
| Net income   | \$4,221,342        | \$4,776,765  | \$5,842,199       | \$9,805,716  |
| <b>Key Measures:</b>                                     |                    |              |                   |              |
| Net loss ratio   | 48.3%              | 32.9%        | 56.0%             | 41.6%        |
| Net underwriting expense ratio                           | 37.7%              | 36.9%        | 38.1%             | 35.2%        |
| Net combined ratio                                       | 86.0%              | 69.8%        | 94.1%             | 76.8%        |
| <b>Reconciliation of net underwriting expense ratio:</b> |                    |              |                   |              |
| Acquisition costs and other underwriting expenses        | \$11,788,002       | \$9,975,938  | \$33,712,628      | \$28,378,515 |
| Less: Ceding commission revenue                          | (1,044,529)        | (1,717,610)  | (4,430,855)       | (8,208,000)  |
| Less: Other income                                       | (352,476)          | (317,269)    | (937,264)         | (880,930)    |
| Net underwriting expenses                                | \$10,390,997       | \$7,941,059  | \$28,344,509      | \$19,289,585 |

|                                |              |              |              |              |
|--------------------------------|--------------|--------------|--------------|--------------|
| Net premiums earned            | \$27,533,907 | \$21,514,408 | \$74,476,138 | \$54,837,883 |
| Net Underwriting Expense Ratio | 37.7%        | 36.9%        | 38.1%        | 35.2%        |



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

|  | Direct        | Assumed  | Ceded          | Net          |
|--|---------------|----------|----------------|--------------|
| Nine months ended September 30, 2018                                   |               |          |                |              |
| Written premiums   | \$107,175,413 | \$842    | \$(19,409,423) | \$87,766,832 |
| Change in unearned premiums  | (9,930,503)   | 3,762    | (3,363,953)    | (13,290,694) |
| Earned premiums  | \$97,244,910  | \$4,604  | \$(22,773,376) | \$74,476,138 |
| Loss and loss adjustment expenses excluding the effect of catastrophes | \$42,575,980  | \$27,037 | \$(6,983,566)  | \$35,619,451 |
| Catastrophe loss   | 10,804,633    | -        | (4,684,961)    | 6,119,672    |
| Loss and loss adjustment expenses                                      | \$53,380,613  | \$27,037 | \$(11,668,527) | \$41,739,123 |
| Loss ratio excluding the effect of catastrophes                        | 43.8%         | 587.3%   | 30.7%          | 47.8%        |
| Catastrophe loss   | 11.1%         | 0.0%     | 20.5%          | 8.2%         |
| Loss ratio   | 54.9%         | 587.3%   | 51.2%          | 56.0%        |
| Nine months ended September 30, 2017                                   |               |          |                |              |
| Written premiums   | \$89,423,758  | \$18,203 | \$(20,719,037) | \$68,722,924 |
| Change in unearned premiums  | (8,456,690)   | 8,162    | (5,436,513)    | (13,885,041) |
| Earned premiums  | \$80,967,068  | \$26,365 | \$(26,155,550) | \$54,837,883 |
| Loss and loss adjustment expenses excluding the effect of catastrophes | \$31,281,727  | \$42,751 | \$(8,503,237)  | \$22,821,241 |
| Catastrophe loss   | -             | -        | -              | -            |
| Loss and loss adjustment expenses                                      | \$31,281,727  | \$42,751 | \$(8,503,237)  | \$22,821,241 |
| Loss ratio excluding the effect of catastrophes                        | 38.6%         | 162.2%   | 32.5%          | 41.6%        |
| Catastrophe loss   | 0.0%          | 0.0%     | 0.0%           | 0.0%         |
| Loss ratio   | 38.6%         | 162.2%   | 32.5%          | 41.6%        |
| Three months ended September 30, 2018                                  |               |          |                |              |
| Written premiums   | \$38,785,453  | \$18     | \$(2,683,699)  | \$36,101,772 |
| Change in unearned premiums  | (4,435,174)   | 698      | (4,133,389)    | (8,567,865)  |
| Earned premiums  | \$34,350,279  | \$716    | \$(6,817,088)  | \$27,533,907 |
| Loss and loss adjustment expenses excluding the effect of catastrophes | \$16,700,865  | \$4,104  | \$(3,797,536)  | \$12,907,433 |
| Catastrophe loss   | 243,244       | -        | 146,031        | 389,275      |
| Loss and loss adjustment expenses                                      | \$16,944,109  | \$4,104  | \$(3,651,505)  | \$13,296,708 |



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|  |              |          |               |              |
|--|--------------|----------|---------------|--------------|
| Loss ratio excluding the effect of catastrophes                        | 48.6%        | 573.2%   | 55.7%         | 46.9%        |
| Catastrophe loss   | 0.7%         | 0.0%     | -2.1%         | 1.4%         |
| Loss ratio   | 49.3%        | 573.2%   | 53.6%         | 48.3%        |
| Three months ended September 30, 2017                                  |              |          |               |              |
| Written premiums   | \$32,839,891 | \$11,910 | \$(590,482)   | \$32,261,319 |
| Change in unearned premiums  | (4,407,894)  | (165)    | (6,338,852)   | (10,746,911) |
| Earned premiums  | \$28,431,997 | \$11,745 | \$(6,929,334) | \$21,514,408 |
| Loss and loss adjustment expenses excluding the effect of catastrophes |              |          |               |              |
| Catastrophe loss   | \$8,123,601  | \$26,418 | \$(1,076,696) | \$7,073,323  |
| Catastrophe loss   | -            | -        | -             | -            |
| Loss and loss adjustment expenses                                      | \$8,123,601  | \$26,418 | \$(1,076,696) | \$7,073,323  |
| Loss ratio excluding the effect of catastrophes                        |              |          |               |              |
| Catastrophe loss   | 28.6%        | 224.9%   | 15.5%         | 32.9%        |
| Catastrophe loss   | 0.0%         | 0.0%     | 0.0%          | 0.0%         |
| Loss ratio   | 28.6%        | 224.9%   | 15.5%         | 32.9%        |



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

|   | Three months ended |              | Nine months ended |              |
|---|--------------------|--------------|-------------------|--------------|
|   | September 30,      |              | September 30,     |              |
|   | 2018               | 2017         | 2018              | 2017         |
| Net premiums earned   | \$27,533,907       | \$21,514,408 | \$74,476,138      | \$54,837,883 |
| Ceding commission revenue   | 1,044,529          | 1,717,610    | 4,430,855         | 8,208,000    |
| Other income  | 352,476            | 317,269      | 937,264           | 880,930      |
| Loss and loss adjustment expenses (1)                               | 13,296,708         | 7,073,323    | 41,739,123        | 22,821,241   |
| Acquisition costs and other underwriting expenses:                  |                    |              |                   |              |
| Commission expense  | 6,594,323          | 5,500,483    | 18,411,460        | 15,491,027   |
| Other underwriting expenses   | 5,193,679          | 4,475,455    | 15,301,168        | 12,887,488   |
| Total acquisition costs and other underwriting expenses             | 11,788,002         | 9,975,938    | 33,712,628        | 28,378,515   |
| Underwriting income   | \$3,846,202        | \$6,500,026  | \$4,392,506       | \$12,727,057 |
| Key Measures:   |                    |              |                   |              |
| Net loss ratio excluding the effect of catastrophes                 | 46.9%              | 32.9%        | 47.8%             | 41.6%        |
| Effect of catastrophe loss on net loss ratio (1)                    | 1.4%               | 0.0%         | 8.2%              | 0.0%         |
| Net loss ratio  | 48.3%              | 32.9%        | 56.0%             | 41.6%        |
| Net underwriting expense ratio excluding the effect of catastrophes | 37.7%              | 36.9%        | 37.5%             | 35.2%        |
| Effect of catastrophe loss on net underwriting expense ratio (2)    | 0.0%               | 0.0%         | 0.6%              | 0.0%         |
| Net underwriting expense ratio                                      | 37.7%              | 36.9%        | 38.1%             | 35.2%        |
| Net combined ratio excluding the effect of catastrophes             | 84.6%              | 69.8%        | 85.3%             | 76.8%        |
| Effect of catastrophe loss on net combined ratio (1) (2)            | 1.4%               | 0.0%         | 8.8%              | 0.0%         |
| Net combined ratio  | 86.0%              | 69.8%        | 94.1%             | 76.8%        |
| Reconciliation of net underwriting expense ratio:                   |                    |              |                   |              |
| Acquisition costs and other underwriting expenses                   | \$11,788,002       | \$9,975,938  | \$33,712,628      | \$28,378,515 |
| Less: Ceding commission revenue (2)                                 | (1,044,529)        | (1,717,610)  | (4,430,855)       | (8,208,000)  |

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|                                |              |              |              |              |
|--------------------------------|--------------|--------------|--------------|--------------|
| Less: Other income             | (352,476)    | (317,269)    | (937,264)    | (880,930)    |
|                                | \$10,390,997 | \$7,941,059  | \$28,344,509 | \$19,289,585 |
| Net earned premium             | \$27,533,907 | \$21,514,408 | \$74,476,138 | \$54,837,883 |
| Net Underwriting Expense Ratio | 37.7%        | 36.9%        | 38.1%        | 35.2%        |

(1)

For the three months ended September 30, 2018, includes the sum of net catastrophe losses and loss adjustment expenses of \$389,276. For the nine months ended September 30, 2018, includes the sum of net catastrophe losses and loss adjustment expenses of \$6,119,672.

(2)

For the three months ended September 30, 2018, the effect of catastrophe loss on our net underwriting expense ratio does not include a reduction of contingent ceding commission revenue as well as the indirect effects of a \$102,577 decrease in other underwriting expenses. For the nine months ended September 30, 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 \$267,508 decrease in other underwriting expenses.



## Investments

## Portfolio Summary

## Fixed-Maturity Securities

The following table presents a breakdown of the amortized cost, fair value, and unrealized gains and losses of our investments in fixed-maturity securities classified as available-for-sale as of September 30, 2018 and December 31, 2017:

September 30, 2018

| Category  | Gross Unrealized Losses |                  |              |              |             |           |
|---|-------------------------|------------------|--------------|--------------|-------------|-----------|
|   | Cost or Amortized       | Gross Unrealized | Less than 12 | More than 12 | Fair        | % of Fair |
|   | Cost                    | Gains            | Months       | Months       | Value       | Value     |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$8,214,959             | \$-              | \$(75,222)   | \$-          | \$8,139,737 | 5.8%      |
| Political subdivisions of States, Territories and Possessions                         | 6,545,242               | 26,468           | (63,596)     | (50,343)     | 6,457,771   | 4.6%      |
| Corporate and other bonds Industrial and miscellaneous                                | 106,538,272             | 87,788           | (2,461,966)  | (399,360)    | 103,764,734 | 73.3%     |
| Residential mortgage and other asset backed securities (1)                            | 23,274,361              | 288,079          | (99,954)     | (464,193)    | 22,998,293  | 16.3%     |
|   | 144,572,834             | 402,335          | (2,700,738)  | (913,896)    | 141,360,535 | 100.0%    |

Total fixed-maturity  
securities

(1)

In 2017, KICO placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its membership in the Federal Home Loan Bank of New York ("FHLBNY"). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from the FHLBNY credit line. As of September 30, 2018, the fair value of the eligible investments was \$5,790,000. KICO will retain all rights regarding all securities if pledged as collateral. As of September 30, 2018, there was no outstanding balance on the FHLBNY credit line.

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December 31, 2017

| Category  | Cost or Amortized<br>Cost | Gross Unrealized<br>Gains | Gross Unrealized<br>Losses |                           | Fair<br>Value | % of Fair<br>Value |
|---|---------------------------|---------------------------|----------------------------|---------------------------|---------------|--------------------|
|   |                           |                           | Less<br>than 12<br>Months  | More<br>than 12<br>Months |               |                    |
| U.S. Treasury securities<br>and<br>obligations of U.S.<br>government<br>corporations and agencies | \$-                       | \$-                       | \$-                        | \$-                       | \$-           | 0.0%               |
| Political subdivisions of<br>States,<br>Territories and Possessions                               | 11,096,122                | 250,135                   | (30,814)                   | -                         | 11,315,443    | 9.4%               |
| Corporate and other bonds<br>Industrial and<br>miscellaneous                                      | 87,562,631                | 1,189,207                 | (269,857)                  | (340,516)                 | 88,141,465    | 73.5%              |
| Residential mortgage and<br>other<br>asset backed securities (1)                                  | 20,463,353                | 305,499                   | (48,482)                   | (189,022)                 | 20,531,348    | 17.1%              |
| Total fixed-maturity<br>securities  | 119,122,106               | 1,744,841                 | (349,153)                  | (529,538)                 | 119,988,256   | 100.0%             |

(1)

In 2017, KICO placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its membership in the FHLB NY. The eligible collateral would be pledged to FHLB NY if KICO draws an advance from the FHLB NY credit line. As of December 31, 2017, the fair value of the eligible investments was \$6,703,000. KICO will retain all rights regarding all securities if pledged as collateral. As of December 31, 2017, there was no outstanding balance on the FHLB NY credit line.

## Equity Securities

The following table presents a breakdown of the cost, fair value, and gross gains and losses of investments in equity securities as of September 30, 2018 and December 31, 2017:

September 30, 2018

| Category                                       | Cost         | Gross       |             | % of         |            |
|--|--------------|-------------|-------------|--------------|------------|
|  |              | Gains       | Losses      | Fair Value   | Fair Value |
| Equity Securities:                             |              |             |             |              |            |
| Preferred stocks                               | \$6,865,381  | \$20,121    | \$(188,302) | \$6,697,200  | 35.5%      |
| Common stocks and exchange traded mutual funds | 11,628,928   | 1,131,212   | (580,650)   | 12,179,490   | 64.5%      |
| Total  | \$18,494,309 | \$1,151,333 | \$(768,952) | \$18,876,690 | 100%       |

December 31, 2017

| Category                                       | Cost         | Gross     |             | % of         |            |
|--|--------------|-----------|-------------|--------------|------------|
|  |              | Gains     | Losses      | Fair Value   | Fair Value |
| Equity Securities:                             |              |           |             |              |            |
| Preferred stocks                               | \$7,081,099  | \$60,867  | \$(141,025) | \$7,000,941  | 49.0%      |
| Common stocks and exchange traded mutual funds | 6,680,742    | 841,250   | (236,735)   | 7,285,257    | 51.0%      |
| Total  | \$13,761,841 | \$902,117 | \$(377,760) | \$14,286,198 | 100%       |





Other Investments

Pursuant to ASC 820 “Fair Value Measurement,” an entity is permitted, as a practical expedient, to estimate the fair value of an investment within the scope of ASC 820 using the net asset value (“NAV”) per share (or its equivalent) of the investment. The following table presents a breakdown of the cost, fair value, and gross gains of our other investments as of September 30, 2018 and December 31, 2017:

| Category | September 30, 2018 |             |            | December 31, 2017 |             |            |
|----------|--------------------|-------------|------------|-------------------|-------------|------------|
|          | Cost               | Gross Gains | Fair Value | Cost              | Gross Gains | Fair Value |

Other Investments:

|            |             |           |             |     |     |     |
|------------|-------------|-----------|-------------|-----|-----|-----|
| Hedge fund | \$2,000,000 | \$241,444 | \$2,241,444 | \$- | \$- | \$- |
| Total      | \$2,000,000 | \$241,444 | \$2,241,444 | \$- | \$- | \$- |

Held-to-Maturity Securities

The following table presents a breakdown of the amortized cost, fair value, and unrealized gains and losses of investments in held-to-maturity securities as of September 30, 2018 and December 31, 2017:

September 30, 2018

| Category | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses |                     | Fair Value | % of Fair Value |
|----------|------------------------|------------------------|-------------------------|---------------------|------------|-----------------|
|          |                        |                        | Less than 12 Months     | More than 12 Months |            |                 |
|          | Cost                   | Gains                  | Months                  | Months              | Value      | Value           |

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|   |             |           |            |           |             |        |
|---|-------------|-----------|------------|-----------|-------------|--------|
| U.S. Treasury securities  | \$729,496   | \$147,543 | \$(7,649)  | \$-       | \$869,390   | 19.7%  |
| Political subdivisions of<br>States,<br>Territories and Possessions | 998,852     | 24,393    | -          | -         | 1,023,245   | 23.2%  |
| Corporate and other bonds<br>Industrial and miscellaneous           | 2,494,004   | 36,835    | (5,100)    | (7,610)   | 2,518,129   | 57.1%  |
| Total   | \$4,222,352 | \$208,771 | \$(12,749) | \$(7,610) | \$4,410,764 | 100.0% |

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December 31, 2017

Gross Unrealized  
Losses

|  | Cost or Amortized | Gross<br>Unrealized | Less<br>than 12 | More<br>than 12 | Fair        | % of Fair |
|--|-------------------|---------------------|-----------------|-----------------|-------------|-----------|
| Category   | Cost              | Gains               | Months          | Months          | Value       | Value     |
| U.S. Treasury securities   | \$729,466         | \$147,573           | \$(1,729)       | \$-             | \$875,310   | 17.0%     |
| Political subdivisions of States,<br>Territories and Possessions | 998,984           | 50,366              | -               | -               | 1,049,350   | 20.4%     |
| Corporate and other bonds<br>Industrial and miscellaneous        | 3,141,358         | 90,358              | -               | (6,300)         | 3,225,416   | 62.6%     |
| Total  | \$4,869,808       | \$288,297           | \$(1,729)       | \$(6,300)       | \$5,150,076 | 100.0%    |

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

A summary of the amortized cost and fair value of our investments in held-to-maturity securities by contractual maturity as of September 30, 2018 and December 31, 2017 is shown below:

|                            | September 30, 2018 |            | December 31, 2017 |            |
|----------------------------|--------------------|------------|-------------------|------------|
|                            | Amortized          |            | Amortized         |            |
| Remaining Time to Maturity | Cost               | Fair Value | Cost              | Fair Value |
| Less than one year         | \$-                | \$-        | \$-               | \$-        |
| One to five years          | 2,996,308          | 3,030,709  | 2,546,459         | 2,601,898  |



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|                    |             |             |             |             |
|--------------------|-------------|-------------|-------------|-------------|
| Five to ten years  | 619,548     | 626,016     | 1,716,884   | 1,794,139   |
| More than 10 years | 606,496     | 754,039     | 606,466     | 754,039     |
| Total              | \$4,222,352 | \$4,410,764 | \$4,869,808 | \$5,150,076 |



## Credit Rating of Fixed-Maturity Securities

The table below summarizes the credit quality of our available-for-sale fixed-maturity securities as of September 30, 2018 and December 31, 2017 as rated by Standard & Poor's (or, if unavailable from Standard & Poor's, then Moody's or Fitch):

| Rating  | September 30, 2018 |             | December 31, 2017 |             |
|---|--------------------|-------------|-------------------|-------------|
|   | Percentage of      |             | Percentage of     |             |
|   | Fair Market        | Fair Market | Fair Market       | Fair Market |
|   | Value              | Value       | Value             | Value       |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$8,139,737        | 5.8%        | \$-               | 0.0%        |
| Corporate and municipal bonds   |                    |             |                   |             |
| AAA   | 974,663            | 0.7%        | 1,358,143         | 1.1%        |
| AA  | 7,450,294          | 5.3%        | 11,319,057        | 9.4%        |
| A   | 16,409,029         | 11.6%       | 17,199,631        | 14.3%       |
| BBB   | 85,419,335         | 60.4%       | 68,704,768        | 57.3%       |
| BB  | -                  | 0.0%        | 875,310           | 0.7%        |
| Total corporate and municipal bonds   | 110,253,321        | 78.0%       | 99,456,909        | 82.8%       |
| Residential mortgage and other asset backed securities                                |                    |             |                   |             |
| AAA   | 2,001,780          | 1.4%        | 2,013,010         | 1.7%        |
| AA  | 11,977,402         | 8.5%        | 11,021,144        | 9.2%        |
| A   | 4,349,290          | 3.1%        | 3,902,768         | 3.3%        |
| CCC   | 1,864,313          | 1.3%        | 1,420,296         | 1.2%        |
| CC  | 111,845            | 0.1%        | 120,742           | 0.1%        |
| C   | 24,905             | 0.0%        | 28,963            | 0.0%        |
| D   | 802,469            | 0.6%        | 1,659,479         | 1.4%        |
| Non rated   | 1,835,473          | 1.2%        | 364,945           | 0.3%        |
| Total residential mortgage and other asset backed securities                          | 22,967,477         | 16.2%       | 20,531,347        | 17.2%       |
| Total   | \$141,360,535      | 100.0%      | \$119,988,256     | 100.0%      |

The table below summarizes the average yield by type of fixed-maturity security as of September 30, 2018 and December 31, 2017:

| Category  | September 30, 2018 | December 31, 2017 |
|---|--------------------|-------------------|
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | 2.19%              | 3.32%             |
| Political subdivisions of States, Territories and Possessions                         | 3.67%              | 3.49%             |
| Corporate and other bonds Industrial and miscellaneous                                | 4.11%              | 3.98%             |
| Residential mortgage and other asset backed securities                                | 1.96%              | 1.83%             |
| Total   | 3.63%              | 3.58%             |



The table below lists the weighted average maturity and effective duration in years on our fixed-maturity securities as of September 30, 2018 and December 31, 2017:

|                                     | September 30, 2018 | December 31, 2017 |
|-------------------------------------|--------------------|-------------------|
| Weighted average effective maturity | 6.0                | 5.7               |
| Weighted average final maturity     | 7.6                | 7.8               |
| Effective duration                  | 5.0                | 4.9               |

#### Fair Value Consideration

As disclosed in Note 4 to the condensed consolidated financial statements, with respect to “Fair Value Measurements,” we define fair value as the price that would be received to sell an asset or paid to transfer a liability in a transaction involving identical or comparable assets or liabilities between market participants (an “exit price”). The fair value hierarchy distinguishes between inputs based on market data from independent sources (“observable inputs”) and a reporting entity’s internal assumptions based upon the best information available when external market data is limited or unavailable (“unobservable inputs”). The fair value hierarchy prioritizes fair value measurements into three levels based on the nature of the inputs. Quoted prices in active markets for identical assets have the highest priority (“Level 1”), followed by observable inputs other than quoted prices including prices for similar but not identical assets or liabilities (“Level 2”), and unobservable inputs, including the reporting entity’s estimates of the assumption that market participants would use, having the lowest priority (“Level 3”). As of September 30, 2018 and December 31, 2017, 79% and 73%, respectively, of the investment portfolio recorded at fair value was priced based upon quoted market prices.

The table below summarizes the gross unrealized losses of our fixed-maturity securities available-for-sale and equity securities by length of time the security has continuously been in an unrealized loss position as of September 30, 2018 and December 31, 2017:



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September 30, 2018

| Category  | Less than 12 months |                   |                       | 12 months or more |                   |                       | Total                |                   |
|---|---------------------|-------------------|-----------------------|-------------------|-------------------|-----------------------|----------------------|-------------------|
|   | Fair Value          | Unrealized Losses | No. of Positions Held | Fair Value        | Unrealized Losses | No. of Positions Held | Aggregate Fair Value | Unrealized Losses |
| Fixed-Maturity Securities:  |                     |                   |                       |                   |                   |                       |                      |                   |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | \$8,139,737         | \$(75,222)        | 7                     | \$-               | \$-               | -                     | \$8,139,737          | \$(75,222)        |
| Political subdivisions of States, Territories and Possessions                         | 3,396,474           | (63,596)          | 7                     | 1,122,656         | (50,343)          | 2                     | 4,519,130            | (113,939)         |
| Corporate and other bonds industrial and miscellaneous                                | 86,846,478          | (2,461,966)       | 108                   | 6,950,836         | (399,360)         | 14                    | 93,797,314           | (2,861,326)       |
| Residential mortgage and other asset backed securities                                | 8,593,080           | (99,954)          | 10                    | 11,453,668        | (464,193)         | 18                    | 20,046,748           | (564,147)         |



|                                       |               |               |     |              |             |    |               |               |
|---------------------------------------|---------------|---------------|-----|--------------|-------------|----|---------------|---------------|
| Total<br>fixed-maturity<br>securities | \$106,975,769 | \$(2,700,738) | 132 | \$19,527,160 | \$(913,896) | 34 | \$126,502,929 | \$(3,614,634) |
|---------------------------------------|---------------|---------------|-----|--------------|-------------|----|---------------|---------------|

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December 31, 2017

| Category  | Less than 12 months |                   |                       | 12 months or more |                   |                       | Total                |                   |
|---|---------------------|-------------------|-----------------------|-------------------|-------------------|-----------------------|----------------------|-------------------|
|   | Fair Value          | Unrealized Losses | No. of Positions Held | Fair Value        | Unrealized Losses | No. of Positions Held | Aggregate Fair Value | Unrealized Losses |
| Fixed-Maturity Securities:                                    |                     |                   |                       |                   |                   |                       |                      |                   |
| Political subdivisions of States, Territories and Possessions | \$1,549,839         | \$(30,814)        | 4                     | \$-               | \$-               | -                     | \$1,549,839          | \$(30,814)        |
| Corporate and other bonds industrial and miscellaneous        | 15,036,462          | (269,857)         | 20                    | 9,113,924         | (340,516)         | 17                    | 24,150,386           | (610,373)         |
| Residential mortgage and other asset backed securities        | 6,956,371           | (48,482)          | 6                     | 7,867,572         | (189,022)         | 15                    | 14,823,943           | (237,504)         |
| Total fixed-maturity securities                               | \$23,542,672        | \$(349,153)       | 30                    | \$16,981,496      | \$(529,538)       | 32                    | \$40,524,168         | \$(878,691)       |
| Equity Securities:  |                     |                   |                       |                   |                   |                       |                      |                   |
| Preferred stocks  | \$1,605,217         | \$(20,313)        | 5                     | \$1,776,675       | \$(120,712)       | 3                     | \$3,381,892          | \$(141,025)       |

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|  |              |             |    |              |             |    |              |               |
|--|--------------|-------------|----|--------------|-------------|----|--------------|---------------|
| Common<br>stocks and<br>exchange<br>traded mutual<br>funds | 1,446,375    | (222,205)   | 4  | 124,900      | (14,530)    | 1  | 1,571,275    | (236,735)     |
| Total equity<br>securities                                 | \$3,051,592  | \$(242,518) | 9  | \$1,901,575  | \$(135,242) | 4  | \$4,953,167  | \$(377,760)   |
| Total  | \$26,594,264 | \$(591,671) | 39 | \$18,883,071 | \$(664,780) | 36 | \$45,477,335 | \$(1,256,451) |

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There were 166 securities at September 30, 2018 that accounted for the gross unrealized loss, none of which were deemed by us to be other than temporarily impaired. There were 62 fixed-maturity securities and 13 equity securities at December 31, 2017 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.

On January 31, 2017, we closed on an underwritten public offering of 2,500,000 shares of our common stock. On February 14, 2017, we closed on the underwriters' purchase option for an additional 192,500 shares of our common stock. The public offering price for the 2,692,500 shares sold was \$12.00 per share. The aggregate net proceeds to us were approximately \$30,137,000. On March 1, 2017, we used \$23,000,000 of the net proceeds of the offering to contribute capital to KICO, to support its ratings upgrade plan and additional growth. The remainder of the net proceeds will be used for general corporate purposes.

On December 19, 2017, we issued \$30 million of our 5.50% Senior Unsecured Notes due December 30, 2022 pursuant to an underwritten public offering. The net proceeds to us were approximately \$29,121,000. On December 20, 2017, we used \$25,000,000 of the net proceeds from the debt offering to contribute capital to KICO, to support additional growth. The remainder of the net proceeds will be used for general corporate purposes. Interest will be payable semi-annually in arrears on June 30 and December 30 of each year, which began on June 30 2018 at the rate of 5.50% per year from December 19, 2017.

For the nine months ended September 30, 2018, the primary source of cash flow for our holding company was the dividends received from KICO, subject to statutory restrictions. For the nine months ended September 30, 2018, KICO paid dividends of \$2,600,000 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 December 31, 2017 and are due and payable within one year of borrowing. The maximum allowable advance as of September 30, 2018, based on the net admitted assets as of December 31, 2017, was approximately \$9,849,000. Advances are limited to the amount of available collateral, which was approximately \$5,790,000 as of September 30, 2018. There were no borrowings under this facility during the nine months ended September 30, 2018.







As of September 30, 2018, invested assets and cash in our holding company was approximately \$6,103,000. If the aforementioned sources of cash flow currently available are insufficient to cover our holding company cash requirements, we will seek to obtain additional financing.

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

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

| Nine months ended September 30,                      | 2018         | 2017         |
|--|--------------|--------------|
| Cash flows provided by (used in):                    |              |              |
| Operating activities                                 | \$18,197,327 | \$20,889,623 |
| Investing activities                                 | (32,299,835) | (34,698,530) |
| Financing activities                                 | (4,385,449)  | 27,644,693   |
| Net (decrease) increase in cash and cash equivalents | (18,487,957) | 13,835,786   |
| Cash and cash equivalents, beginning of period       | 48,381,633   | 12,044,520   |
| Cash and cash equivalents, end of period             | \$29,893,676 | \$25,880,306 |

Net cash provided by operating activities was \$18,197,000 in 2018 as compared to \$20,890,000 in 2017. The \$2,693,000 decrease in cash flows provided by operating activities in 2018 was primarily a result of a decrease in net income (adjusted for non-cash items) of \$3,357,000, partially offset by an increase in cash arising from net fluctuations in assets and liabilities relating to operating activities of KICO as affected by the growth in its operations which are described above.

Net cash used in investing activities was \$32,300,000 in 2018 compared to \$34,699,000 in 2017. The \$2,399,000 decrease in net cash used in investing activities was the result of a \$12,902,000 increase in sales or maturities of invested assets, which offset the \$10,404,000 increase in acquisitions of invested assets and the \$100,000 increase in fixed asset acquisitions in 2018.

Net cash used in financing activities was \$4,385,000 in 2018 compared to \$27,645,000 provided in 2017. The \$32,030,000 decrease in net cash provided by financing activities was the result of the \$30,137,000 net proceeds we received from the public offering of our common stock in January/February 2017 and an \$841,000 increase in dividends paid in 2018.

#### Reinsurance

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

Our quota share reinsurance treaty in effect for 2018 for our personal lines business, which primarily consists of homeowners policies, was covered under the 2017/2019 Treaty. Our quota share reinsurance treaty in effect for 2017

for our personal lines business, which primarily consists of homeowners policies, was covered under the 2017/2019 and 2016/2017 Treaties.



In March 2017, we bound our personal lines quota share reinsurance treaty effective July 1, 2017. The treaty provides for a reduction in the quota share ceding rate to 20%, from 40% in the 2016/2017 Treaty, and an increase in the provisional ceding commission rate to 53%, from 52% in the 2016/2017 Treaty. The 2017/2019 Treaty covers a two year period from July 1, 2017 through June 30, 2019. In August 2018, we reduced our quota share ceding rate under the 2017/2019 Treaty to 10%, from 20%, effective July 1, 2018.

We entered into new excess of loss and catastrophe reinsurance treaties effective July 1, 2018. Material terms for our reinsurance treaties in effect for the treaty years shown below are as follows:

|                  | Treaty Year   |               |               |
|------------------|---------------|---------------|---------------|
|                  | July 1, 2018  | July 1, 2017  | July 1, 2016  |
|                  | to            | to            | to            |
| Line of Business | June 30, 2019 | June 30, 2018 | June 30, 2017 |

Personal Lines:

Homeowners, dwelling fire and canine legal liability

Quota share treaty:

|   |               |               |               |
|---|---------------|---------------|---------------|
| Percent ceded   | 10%           | 20%           | 40%           |
| Risk retained   | \$900,000     | \$800,000     | \$500,000     |
| Losses per occurrence subject to quota share reinsurance coverage               | \$1,000,000   | \$1,000,000   | \$833,333     |
| Excess of loss coverage and facultative facility above quota share coverage (1) | \$9,000,000   | \$9,000,000   | \$3,666,667   |
|   | in excess of  | in excess of  | in excess of  |
|   | \$1,000,000   | \$1,000,000   | \$833,333     |
| Total reinsurance coverage per occurrence                                       | \$9,100,000   | \$9,200,000   | \$4,000,000   |
| Losses per occurrence subject to reinsurance coverage                           | \$10,000,000  | \$10,000,000  | \$4,500,000   |
| Expiration date   | June 30, 2019 | June 30, 2019 | June 30, 2017 |

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 |

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|   |               |               |               |
|---|---------------|---------------|---------------|
| 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, 2019 | June 30, 2018 | June 30, 2017 |

Commercial Lines:

General liability commercial policies

|   |                           |                           |                           |
|---|---------------------------|---------------------------|---------------------------|
| Quota share treaty                                    | None                      | None                      | None                      |
| Risk retained   | \$750,000                 | \$750,000                 | \$500,000                 |
| Excess of loss coverage above risk retained           | \$3,750,000               | \$3,750,000               | \$4,000,000               |
|   | in excess of<br>\$750,000 | in excess of<br>\$750,000 | in excess of<br>\$500,000 |
| Total reinsurance coverage per occurrence             | \$3,750,000               | \$3,750,000               | \$4,000,000               |
| 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                     | 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   | \$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, 2019 | June 30, 2018 | June 30, 2017 |

Catastrophe Reinsurance:

|   |               |               |               |
|---|---------------|---------------|---------------|
| Initial loss subject to personal lines quota share treaty           | \$5,000,000   | \$5,000,000   | \$5,000,000   |
| Risk retained per catastrophe occurrence (2)                        | \$4,500,000   | \$4,000,000   | \$3,000,000   |
| Catastrophe loss coverage in excess of quota share coverage (3) (4) | \$445,000,000 | \$315,000,000 | \$247,000,000 |
| Reinstatement premium protection (5)                                | Yes           | Yes           | Yes           |



(1)

For personal lines, the 2017/2019 Treaty 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. 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.

(4)

Effective July 1, 2018, the top \$50,000,000 layer of catastrophe reinsurance coverage has a two year term expiring on June 30, 2020.

(5)

Effective July 1, 2016, reinstatement premium protection for \$20,000,000 of catastrophe coverage in excess of \$5,000,000.

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

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

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

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

- (1)  
Treaty for July 1, 2018 – June 30, 2019 is a two year treaty with expiration date of June 30, 2019.
- (2)  
Covered by excess of loss treaties up to \$3,500,000 and by facultative facility from \$3,500,000 to \$10,000,000.
- (3)  
Covered by excess of loss treaties.
- (4)  
Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts.





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

| Treaty              | July 1, 2017 - June 30, 2018 |               | July 1, 2016 - June 30, 2017 |               |
|---------------------|------------------------------|---------------|------------------------------|---------------|
|                     | Range of Loss                | Risk Retained | Range of Loss                | Risk Retained |
| Personal Lines (1)  | Initial \$1,000,000          | \$800,000     | Initial \$833,333            | \$500,000     |
|                     | \$1,000,000 - \$10,000,000   | None(2)       | \$833,333 - \$4,500,000      | None(3)       |
|                     | Over \$10,000,000            | 100%          | Over \$4,500,000             | 100%          |
| Personal Umbrella   | Initial \$1,000,000          | \$100,000     | Initial \$1,000,000          | \$100,000     |
|                     | \$1,000,000 - \$5,000,000    | None          | \$1,000,000 - \$5,000,000    | None          |
|                     | Over \$5,000,000             | 100%          | Over \$5,000,000             | 100%          |
| Commercial Lines    | Initial \$750,000            | \$750,000     | Initial \$500,000            | \$500,000     |
|                     | \$750,000 - \$4,500,000      | None(3)       | \$500,000 - \$4,500,000      | None(3)       |
|                     | Over \$4,500,000             | 100%          | Over \$4,500,000             | 100%          |
| Commercial Umbrella | Initial \$1,000,000          | \$100,000     | Initial \$1,000,000          | \$100,000     |
|                     | \$1,000,000 - \$5,000,000    | None          | \$1,000,000 - \$5,000,000    | None          |
|                     | Over \$5,000,000             | 100%          | Over \$5,000,000             | 100%          |
| Catastrophe (4)     | Initial \$5,000,000          | \$4,000,000   | Initial \$5,000,000          | \$3,000,000   |
|                     | \$5,000,000 - \$320,000,000  | None          | \$5,000,000 - \$252,000,000  | None          |
|                     | Over \$320,000,000           | 100%          | Over \$252,000,000           | 100%          |

(1)

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

(2)

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

(3)

Covered by excess of loss treaties.

(4)

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

#### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

#### Factors That May Affect Future Results and Financial Condition

Based upon the factors set forth under “Factors That May Affect Future Results and Financial Condition” in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017 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. In addition, such factors, among others, may affect the accuracy of certain forward-looking statements contained in our periodic reports, including this Quarterly Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our market risk factors have not changed materially since they were described in our Quarterly Report on Form 10-Q for the period ended March 31, 2018 (filed May 9, 2018) in “Quantitative and Qualitative Disclosures About Market Risk” in Item 3 of Part I.



Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rule 13a-15(e)) that are designed to assure that information required to be disclosed in the reports the Company files or submits under the Securities Exchange Act of 1934 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.

As required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this Quarterly Report, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2018.

Changes in Internal Control over Financial Reporting

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



## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

None.

### Item 1A. Risk Factors.

Our exposure to risk has not changed materially since described in our Annual Report on Form 10-K for the year ended December 31, 2017 (filed March 15, 2018) in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Factors That May Affect Future Results and Financial Condition” in Item 7.

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

(a) None.

(b) Not applicable.

(c) There were no purchases of common stock made by us or any “affiliated purchaser” during the quarter ended September 30, 2018.

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other Information.

None.





Item 6. Exhibits.

- 3(a) Restated Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3(a) to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2014 filed on May 15, 2014).
- 3(b) By-laws, as amended (incorporated by reference to Exhibit 3.1 to the Company's current Report on Form 8-K filed on November 9, 2009).
- 10(a) Amended and Restated Employment Agreement, dated as of October 16, 2018, 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 22, 2018).
- 10(b) Employment Agreement, dated as of October 16, 2018, by and between Kingstone Companies, Inc. and Dale A. Thatcher (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 22, 2018).
- 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.



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KINGSTONE  
COMPANIES, INC.

Dated: November 8, 2018 By: /s/ Barry B. Goldstein  
Barry B. Goldstein  
President

Dated: November 8, 2018 By: /s/ Victor Brodsky  
Victor Brodsky  
Chief Financial Officer