

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

**FORM 10-K**

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2020 OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-1665

**KINGSTONE COMPANIES, INC.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

36-2476480

(I.R.S. Employer  
Identification Number)

15 Joys Lane  
Kingston, NY 12401

(Address of principal executive offices)

(845) 802-7900

(Registrant's telephone number, including area code)

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

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

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

None
(Title of each class)

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

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

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1673 (04-20)

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   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

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

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

As of June 30, 2020, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$43,436,197 based on the closing sale price as reported on the Nasdaq Global Select Market.

**Note.**—If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided that the assumptions are set forth in this Form.

**APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

**(APPLICABLE ONLY TO CORPORATE REGISTRANTS)**

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. As of March 17, 2021, there were 10,701,407 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

None

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**PART I**

**Forward-Looking Statements**

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

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

**ITEM 1. BUSINESS.**

**(a) Business Development**

**General**

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

We offer property and casualty insurance products to individuals through our wholly owned subsidiary, Kingstone Insurance Company (“KICO”), domiciled in the state of New York. KICO is a licensed property and casualty insurance company in New York, New Jersey, Connecticut, Massachusetts, Pennsylvania, Rhode Island, Maine, and New Hampshire. KICO is currently offering its property and casualty insurance products in New York, New Jersey, Rhode Island, Massachusetts and Connecticut. Although in 2020 KICO wrote 80% of its direct written premiums in New York, we believe that New Jersey, Connecticut, Massachusetts, and Rhode Island will represent an increasing portion of the total over the coming years.

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

**Recent Developments**

***Developments During 2020***

- *Quota Share Reinsurance*

Effective December 30, 2020, KICO terminated the 25% quota share reinsurance treaty for its personal lines business, which primarily consisted of homeowners’ policies, covering the period December 15, 2019 through December 30, 2020.

- *Catastrophe Reinsurance Coverage*

Effective July 1, 2020, KICO decreased the top limit of its catastrophe reinsurance coverage from \$610,000,000 to \$485,000,000, which, at the time, equated to more than a 1-in-130 year storm event according to the primary industry catastrophe model that we follow.

- *A.M. Best Rating*

In July 2020, A.M. Best downgraded KICO’s financial strength rating from A- (excellent) to B++ (Good) as a result of KICO’s revision to its catastrophe reinsurance program effective July 1, 2020 as described above.

***Developments During 2019***

- *Quota Share Reinsurance*

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

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

- *Catastrophe Reinsurance Coverage*

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

- *Expansion into Connecticut*

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

- *Exit Commercial Liability Business*

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

**(b) Business**

**Property and Casualty Insurance**

***Overview***

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

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

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

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

### ***Business; Strategy***

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

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

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

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

For the year ended December 31, 2020, our gross written premiums totaled \$169.3 million, a decrease of 1.1% from the \$171.2 million in gross written premiums for the year ended December 31, 2019. While gross written premiums were generally flat between the two years, in the year ended December 31, 2020, there was a decrease of \$10.2 million of commercial lines gross written premiums as a result of our exit from this line, which was offset by an increase in the core homeowners gross written premiums of \$11.2 million.

### **Product Lines**

Our product lines include the following:

*Personal lines* - Our largest line of business is personal lines, consisting of homeowners and dwelling fire multi-peril, cooperative/condominiums, renters, and personal umbrella policies. Personal lines policies accounted for 95.7% of our gross written premiums for the year ended December 31, 2020.

*Livery physical damage* - We write for-hire vehicle physical damage only policies for livery and car service vehicles and taxicabs, primarily based in New York City. These policies insure only the physical damage portion of insurance for such vehicles, with no liability coverage included. These policies accounted for 4.2% of our gross written premiums for the year ended December 31, 2020.

*Commercial liability* - Through July 2019, we offered businessowners policies, which consist primarily of small business retail, service, and office risks, with limited property exposures. We also wrote artisan's liability policies for small independent contractors with smaller sized workforces. In addition, we wrote special multi-peril policies for larger and more specialized businessowners risks. Further, we offered commercial umbrella policies written above our supporting commercial lines policies. In July 2019, due to the poor performance of these lines, we made the decision to no longer underwrite commercial lines or commercial umbrella risks. In force policies for these lines were non-renewed at the end of their annual terms. Commercial lines policies accounted for 5.9% of our gross written premiums for the year ended December 31, 2019. We have no in force commercial lines policies as of December 31, 2020.

*Other* - We write canine legal liability policies and have a small participation in mandatory state joint underwriting associations. These policies accounted for 0.1% of our gross written premiums for the year ended December 31, 2020.

### **Our Competitive Strengths**

#### *History of Growing Our Profitable Operations*

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

#### *Strong Producer Relationships*

Within our selected producers' offices, we compete with other property and casualty insurance carriers available to those producers. We carefully select the producers that distribute our insurance policies and continuously monitor and evaluate their performance. We believe our insurance producers value their relationships with us because we provide excellent, consistent personal service coupled with competitive rates and commission levels. We have consistently been rated by insurance producers as above average in the important areas of underwriting, claims handling and service. In the biennial performance surveys conducted by the Professional Insurance Agents of New York and New Jersey of its membership since 2010, KICO was rated as one of the top performing insurance companies in New York, twice ranking as the top rated carrier among all those surveyed.



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

*Sophisticated Underwriting and Risk Management Practices*

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

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

*Effective Utilization of Reinsurance*

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

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

*Scalable, Low-Cost Operations*

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

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

In 2020, we implemented the Kingstone 2.0 program which is an effort to modernize our systems. In 2020 we implemented our new claims system, filed our new homeowners program in New York, and filed our new condo/tenant and dwelling fire programs in New York, introduced a new interface for our select producers and started the conversion to our new policy management system. We have been able to make these investments without an increase in underwriting expenses.

### ***Underwriting and Claims Management Philosophy***

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

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

### ***Distribution***

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

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

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

(\$ in thousands)	Year ended December 31, 2020		Year ended December 31, 2019	
	Amount	Percent	Amount	Percent
Direct Written Premiums				
Core Independent	\$ 123,755	76.4%	\$ 120,625	80.6%
Expansion Independent (1)	30,953	19.1%	24,253	16.2%
Alternative Distribution through Cosi	7,233	4.5%	4,799	3.2%
Total	<u>\$ 161,941</u>	<u>100.0%</u>	<u>\$ 149,677</u>	<u>100.0%</u>

(1) Outside of New York

For the years ended December 31, 2020 and 2019, Alternative Distribution comprised of 4.5% and 3.2% respectively, of direct written premiums for our homeowners and dwelling fire components of personal lines.

#### ***Competition; Market***

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

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

In 2019, KICO was the 14th largest writer of homeowners insurance in the State of New York, according to data compiled by SNL Financial LLC. Based on the same data, in 2019, we had a 1.6% market share for this business. We compete with large national carriers as well as regional and local carriers in the property and casualty marketplace in New York and other states. We believe that many national and regional carriers have chosen to limit their rate of premium growth or to decrease their presence in Northeastern states due to the relatively high coastal population and associated catastrophe risk that exists in the region.

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

#### ***Loss and Loss Adjustment Expense Reserves***

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

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

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

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

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

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

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

*Reconciliation of Loss and Loss Adjustment Expenses*

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

	Years ended	
	December 31,	
	2020	2019
Balance at beginning of period	\$ 80,498,611	\$ 56,197,106
Less reinsurance recoverables	(15,728,224)	(15,671,247)
Net balance, beginning of period	<u>64,770,387</u>	<u>40,525,859</u>
Incurred related to:		
Current year	66,389,907	79,044,301
Prior years	41,165	11,138,023
Total incurred	<u>66,431,072</u>	<u>90,182,324</u>
Paid related to:		
Current year	41,100,578	42,861,207
Prior years	27,453,904	23,076,589
Total paid	<u>68,554,482</u>	<u>65,937,796</u>
Net balance at end of period	62,646,977	64,770,387
Add reinsurance recoverables	20,154,251	15,728,224
Balance at end of period	<u>\$ 82,801,228</u>	<u>\$ 80,498,611</u>

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

#### *Loss and Loss Adjustment Expenses Development*

The table below shows the net loss development of reserves held as of each calendar year-end from 2011 through 2020.

The first section of the table reflects the changes in our loss and LAE reserves after each subsequent calendar year of development. The table displays the re-estimated values of incurred losses and LAE at each succeeding calendar year-end, including payments made during the years indicated. The second section of the table shows by year the cumulative amounts of loss and LAE payments, net of amounts recoverable from reinsurers, as of the end of each succeeding year. An example with respect to the net loss and LAE reserves of \$7,280,000 as of December 31, 2010 is as follows. By December 31, 2012 (two years later), \$4,947,000 had actually been paid in settlement of the claims that relate to liabilities as of December 31, 2010. The re-estimated ultimate reserves for those claims as of December 31, 2012 (two years later) had grown to \$8,289,000.

The “cumulative redundancy (deficiency)” represents, as of December 31, 2020, the difference between the latest re-estimated liability and the amounts as originally estimated. A redundancy means that the original estimate was higher than the current estimate. A deficiency means that the current estimate is higher than the original estimate.

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<b>(in thousands of \$)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Reserve for loss and loss adjustment expenses, net of reinsurance recoverables	7,280	8,520	12,065	17,139	21,663	23,170	25,960	32,051	40,526	64,770	62,647
Net reserve estimated as of One year later	7,483	9,261	13,886	18,903	21,200	23,107	25,899	33,203	51,664	64,811	
Two years later	8,289	11,022	16,875	18,332	21,501	24,413	26,970	42,723	55,145		
Three years later	9,170	12,968	16,624	18,687	22,576	25,509	33,298	43,780			
Four years later	10,128	12,552	16,767	19,386	23,243	28,638	33,342				
Five years later	9,925	12,440	16,985	19,449	25,442	28,506					
Six years later	9,932	12,367	16,959	20,265	25,353						
Seven years later	9,779	12,307	17,198	20,069							
Eight years later	9,676	12,317	17,089								
Nine years later	9,736	12,325									
Ten years later	9,728										
Net cumulative redundancy (deficiency)	(2,448)	(3,805)	(5,024)	(2,930)	(3,690)	(5,336)	(7,382)	(11,729)	(14,619)	(41)	
<b>(in thousands of \$)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Cumulative amount of reserve paid, net of reinsurance recoverable through											
One year later	3,201	3,237	4,804	6,156	8,500	8,503	9,900	15,795	23,075	27,454	
Two years later	4,947	5,661	8,833	10,629	12,853	14,456	17,187	26,168	35,924		
Three years later	6,199	8,221	11,873	13,571	16,564	19,533	23,484	32,704			
Four years later	7,737	10,100	13,785	16,166	19,838	22,816	27,203				
Five years later	8,585	10,903	15,479	17,262	21,976	25,210					
Six years later	8,941	11,417	15,882	18,265	23,280						
Seven years later	9,275	11,725	16,152	18,954							
Eight years later	9,559	11,864	16,516								
Nine years later	9,629	12,205									
Ten years later	9,630										
Net reserve -											
December 31,	7,280	8,520	12,065	17,139	21,663	23,170	25,960	32,051	40,526	64,770	62,647
* Reinsurance Recoverable	10,432	9,960	18,420	17,364	18,250	16,707	15,777	16,749	15,671	15,728	20,154
* Gross reserves -											
December 31,	<u>17,712</u>	<u>18,480</u>	<u>30,485</u>	<u>34,503</u>	<u>39,913</u>	<u>39,877</u>	<u>41,737</u>	<u>48,800</u>	<u>56,197</u>	<u>80,499</u>	<u>82,801</u>
Net re-estimated reserve	9,728	12,325	17,089	20,069	25,353	28,506	33,342	43,780	55,145	64,811	
Re-estimated reinsurance recoverable	<u>13,140</u>	<u>13,577</u>	<u>28,342</u>	<u>22,512</u>	<u>23,667</u>	<u>21,667</u>	<u>21,300</u>	<u>21,264</u>	<u>19,551</u>	<u>16,496</u>	
Gross re-estimated reserve	<u>22,868</u>	<u>25,902</u>	<u>45,431</u>	<u>42,581</u>	<u>49,020</u>	<u>50,173</u>	<u>54,642</u>	<u>65,044</u>	<u>74,696</u>	<u>81,307</u>	
Gross cumulative redundancy (deficiency)	<u>(5,156)</u>	<u>(7,422)</u>	<u>(14,946)</u>	<u>(8,078)</u>	<u>(9,107)</u>	<u>(10,296)</u>	<u>(12,905)</u>	<u>(16,244)</u>	<u>(18,499)</u>	<u>(808)</u>	

(Components may not sum to totals due to rounding)

## **Reinsurance**

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

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

Effective December 15, 2019, we entered into a quota share reinsurance treaty for our personal lines business, which primarily consists of homeowners' policies, which covered the period from December 15, 2019 through December 30, 2020 ("2019/2020 Treaty"). Effective December 31, 2020, the 2019/2020 Treaty expired on a cut-off basis; this treaty was not renewed. In addition to the 2019/2020 Treaty, our quota share reinsurance treaties in effect during the year ended December 31, 2019 for our personal lines business were covered under a treaty covering a two-year period from July 1, 2017 through June 30, 2019 ("2017/2019 Treaty"). The treaty in effect during the year ended December 31, 2019 was covered under the July 1, 2018 through June 30, 2019 treaty year ("2018/2019 Treaty Year").

Excess of loss contracts provide coverage for individual loss occurrences exceeding a certain threshold. The quota share reinsurance treaties inure to the benefit of our excess of loss treaties, as the maximum net retention on any single risk occurrence is first limited through the excess of loss treaty, and then that loss is shared again through the quota share reinsurance treaty. Our maximum net retention under the quota share and excess of loss treaties for any one personal lines occurrence for dates of loss on or after December 15, 2019 through December 30, 2020 was \$750,000. Effective December 31, 2020, our maximum net retention increased to \$1,000,000. Our maximum net retention under the excess of loss treaties for any one commercial general liability occurrence for dates of loss on or after July 1, 2020 is \$750,000.

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

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

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

In 2020, we purchased catastrophe reinsurance to provide coverage of up to \$485,000,000 for losses associated with a single event. One of the most commonly used catastrophe forecasting models prepared for us indicates that the catastrophe reinsurance treaties provide coverage in excess of our estimated probable maximum loss associated with a single more than one-in-130 year storm event. The direct retention for any single catastrophe event is \$10,000,000. For the period December 15, 2019 through December 30, 2020 losses on personal lines policies were subject to the 25% quota share treaty, which resulted in a net retention by us of \$5,625,000 of exposure per catastrophe occurrence. Effective July 1, 2020, we have reinstatement premium protection on the first \$70,000,000 layer of catastrophe coverage in excess of \$10,000,000. This protects us from having to pay an additional premium to reinstate catastrophe coverage for an event up to this level.

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

### **Ratings**

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

Kingstone has a financial strength rating from A.M. Best of B++ (Good). Other ratings assigned to KICO and Kingstone by A.M. Best and Kroll Bond Rating Agency are as follows:

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

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

### **Catastrophe Losses**

In 2020 we had catastrophe losses, which are defined as losses from an event for which a catastrophe bulletin and related serial number has been issued by the Property Claims Services (PCS) unit of the Insurance Services Office (ISO). PCS catastrophe bulletins are issued for events that cause more than \$25 million in total insured losses and affect a significant number of policyholders and insurers. Our predominant market, downstate New York, was affected by several events, including one large event, Tropical Storm Isaias, during 2020. The effects of this catastrophe and other minor catastrophes during the year increased our net loss ratio by 10.8 percentage points in 2020. Our predominant market, downstate New York, was affected by several events, including one large event, during the winter of 2019. These claims were primarily from losses due to frozen pipes and related water damage resulting from abnormally low temperatures for an extended period. The effects of this catastrophe and other minor catastrophes during the year increased our net loss ratio by 6.0 percentage points in 2019.



## **Government Regulation**

### ***Holding Company Regulation***

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

### ***Change of Control***

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

### ***State Insurance Regulation***

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

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

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

### ***Federal and State Legislative and Regulatory Changes***

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

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

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

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

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

### ***State Regulatory Examinations***

As part of their regulatory oversight process, state regulatory authorities conduct periodic detailed examinations of the financial reporting of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance regulators of other states under guidelines promulgated by the NAIC. The New York DFS commenced its examination of KICO in 2019 as of December 31, 2018. The examination was completed on April 30, 2020.

### ***Risk-Based Capital Regulations***

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

The RBC guidelines define specific capital levels based on a company’s ACL that are determined by the ratio of the company’s total adjusted capital (“TAC”) to its ACL. TAC is equal to statutory capital, plus or minus certain other specified adjustments. KICO’s TAC is above the ACL and is in compliance with New York’s RBC requirements as of December 31, 2020.

### ***Dividend Limitations***

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

### ***Insurance Regulatory Information System Ratios***

The Insurance Regulatory Information System (“IRIS”) was developed by the NAIC and is intended primarily to assist state insurance regulators in meeting their statutory mandates to oversee the financial condition of insurance companies operating in their respective states. IRIS identifies thirteen industry ratios and specifies “usual values” for each ratio. Departure from the usual values on four or more of the ratios can lead to inquiries from individual state insurance commissioners as to certain aspects of an insurer’s business. As of December 31, 2020, KICO did not have any ratios outside the usual range.

### ***Accounting Principles***

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

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

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

**Legal Structure**

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

**Employees**

As of December 31, 2020, we had 87 employees. None of our employees are covered by a collective bargaining agreement. We believe that our relationship with our employees is good.

**Availability of Information**

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

**ITEM 1A. RISK FACTORS.**

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

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

**Risks Related to Our Business**

***The impact of COVID-19 and related risks could materially affect our results of operations, financial position and/or liquidity.***

Beginning in March 2020, the global pandemic related to the novel coronavirus COVID-19 began to impact the global economy and our results of operations. Because of the size and breadth of this pandemic, all of the direct and indirect consequences of COVID-19 are not yet known and may not emerge for some time. Risks presented by the ongoing effects of COVID-19 include, among others, the following:

**Revenues.** We expect that the impact of COVID-19 on general economic activity will negatively impact our premium volumes. We began to experience this impact in March 2020 and it became more significant during the remainder of 2021. We also expect this impact will further persist but to a lesser extent for the duration of 2020, but the degree of the impact will depend on the extent and duration of the economic contraction and could be material.

**Investments.** The disruption in the financial markets related to COVID-19 has contributed to net investment losses, primarily due to the impact of changes in fair value on our equity investments and in our fixed-income investment portfolio. Our corporate fixed income portfolio may be adversely impacted by ratings downgrades, increased bankruptcies and credit spread widening in distressed industries. In addition, in recent years, many state and local governments have been operating under deficits or projected deficits. These deficits may be exacerbated by the costs of responding to COVID-19 and reduced tax revenues due to adverse economic conditions. The severity and duration of these deficits could have an adverse impact on the collectability and valuation of our municipal bond portfolio. Our investment portfolio also includes mortgage-backed securities which could be adversely impacted by declines in real estate valuations and/or financial market disruption. Further disruptions in global financial markets could adversely impact our net investment income in future periods.

**Adverse Legislative and/or Regulatory Action.** Federal, state and local government actions to address and contain the impact of COVID-19 may adversely affect us. For example, we may be subject to legislative and/or regulatory action that seeks to retroactively mandate coverage for losses which our insurance policies were not designed or priced to cover. Currently, in some states there is proposed legislation to require insurers to cover business interruption claims irrespective of terms, exclusions or other conditions included in the policies that would otherwise preclude coverage. Regulatory restrictions or requirements could also impact pricing, risk selection and our rights and obligations with respect to our policies and insureds, including our ability to cancel or non-renew policies and our right to collect premiums.

**Operational Disruptions and Heightened Cybersecurity Risks.** Our operations could be disrupted if key members of our senior management or a significant percentage of our workforce or the workforce of our producers are unable to continue to work because of illness, government directives or otherwise. In addition, the interruption of our or their system capabilities could result in a deterioration of our ability to write and process new and renewal business, provide customer service, pay claims in a timely manner or perform other necessary business functions. Having shifted to remote working arrangements, we also face a heightened risk of cybersecurity attacks or data security incidents and are more dependent on internet and telecommunications access and capabilities.

***Reinsurance Risks.*** We purchase reinsurance to reduce our net liability on individual risks, to protect against possible catastrophes, to remain within a target ratio of net premiums written to policyholders' surplus and to expand our underwriting capacity. Participation in reinsurance arrangements does not relieve us from our obligations to policyholders. Our personal lines catastrophe reinsurance program was designed, utilizing our risk management methodology, to address our exposure to catastrophes. Market conditions beyond our control, including the effect of COVID-19 on the reinsurance market, have impacted and may continue to impact the availability and cost of the reinsurance we purchase. No assurances can be given that reinsurance will remain continuously available to us to the same extent and on the same terms and rates as currently available. For example, our ability to afford reinsurance to reduce our catastrophe risk may be dependent upon our ability to adjust premium rates for its cost, and there are no assurances that the terms and rates for our current reinsurance program will continue to be available in the future. If we are unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient and at prices that we consider acceptable, we will have to either accept an increase in our exposure risk, reduce our insurance writings or seek other alternatives.

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

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

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

Because of the exposure of our property and casualty business to catastrophic events (such as Superstorm Sandy) and other severe weather events, our operating results and financial condition may vary significantly from one period to the next. Catastrophes can be caused by various natural and man-made disasters, including earthquakes, wildfires, tornadoes, hurricanes, severe winter weather, storms and certain types of terrorism. We currently have catastrophe reinsurance coverage with regard to losses of up to \$485,000,000 (\$475,000,000 in excess of \$10,000,000). The initial \$7,500,000 of losses in a catastrophe were subject to a 25% quota share reinsurance treaty through December 30, 2020, such that we retain \$8,125,000 of risk per catastrophe occurrence. With respect to any additional catastrophe losses of up to \$475,000,000, we are 100% reinsured under our catastrophe reinsurance program. Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts. We may incur catastrophe losses in excess of: (i) those that we project would be incurred, (ii) those that external modeling firms estimate would be incurred, (iii) the average expected level used in pricing or (iv) our current reinsurance coverage limits. Despite our catastrophe management programs, we are exposed to catastrophes that could have a material adverse effect on our operating results and financial condition. Our liquidity could be constrained by a catastrophe, or multiple catastrophes, which may result in extraordinary losses or a downgrade of our financial strength ratings. In addition, the reinsurance losses that are incurred in connection with a catastrophe could have an adverse impact on the terms and conditions of future reinsurance treaties.

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

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

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

***Recent decline in the financial strength rating assigned to our insurance subsidiary by A.M. Best will impact our revenues and earnings.***

Financial strength ratings are an important factor influencing the competitive position of insurance companies. The objective of the rating agencies' rating systems is to provide an opinion as to an insurer's financial strength and ability to meet ongoing obligations to its policyholders. The ratings of Kingstone Insurance Company ("KICO"), our insurance subsidiary, reflect the rating agencies' opinion as to its financial strength and are not evaluations directed to investors in our securities, nor are they recommendations to buy, sell or hold our securities.

Our ratings are subject to periodic review by, and may be revised downward or revoked at the sole discretion of, the rating agencies. Our ability to write business, particularly commercial liability lines, is influenced by our financial strength rating from A.M. Best. On July 10, 2020, A.M. Best lowered the financial strength rating of KICO from "A-" (Excellent) to "B++" (Good). The outlook of A.M. Best's credit rating is negative. A.M. Best indicated that the ratings downgrade of KICO reflects its balance sheet strength, which A.M. Best categorizes as adequate, as well as its strong operating performance, limited business profile and appropriate enterprise risk management. It stated that the ratings action was driven by a revision in KICO's catastrophe reinsurance program effective July 1, 2020 which significantly reduces the amount of reinsurance protection previously contemplated and purchased.

Management believes that A.M. Best's financial strength rating is more significant with regard to commercial liability insurance, as opposed to personal lines business. Since we have discontinued our commercial lines business, we believe that A.M. Best's rating action will not result in a material decrease in the amount of business that KICO will be able to write. However, the A.M. Best ratings downgrade has resulted in a material decrease in the business of our subsidiary, Cosi, a multi-state licensed general agency that had partnered with name-brand carriers which require an A.M. Best "A-" rating from its partners.

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Approximately 80% of our revenue is currently derived from sources located in the State of New York and, accordingly, is affected by the prevailing regulatory, economic, demographic, competitive and other conditions in the state. Changes in any of these conditions could make it costlier or difficult for us to conduct our business. Adverse regulatory developments in New York, which could include fundamental changes to the design or implementation of the insurance regulatory framework, could have a material adverse effect on our results of operations and financial condition.

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

We market our insurance products primarily through insurance brokers. A large percentage of our gross premiums written are sourced through a limited number of brokers. For the year ended December 31, 2020, thirty brokers provided a total of 36.3% of our total gross premiums written. The nature of our dependency on these brokers relates to the high volume of business they consistently refer to us. Our relationship with these brokers is based on the quality of the underwriting and claims services we provide to our clients and on our financial strength ratings. Any deterioration in these factors could result in these brokers advising clients to place their risks with other insurers rather than with us. A loss of all or a substantial portion of the business provided by one or more of these brokers could have a material adverse effect on our financial condition and results of operations.

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

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

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

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

State insurance laws limit the ability of KICO to pay dividends and require KICO to maintain specified minimum levels of statutory capital and surplus. Maximum allowable dividends by KICO to us are restricted to the lesser of 10% of surplus or 100% of net investment income (on a statutory accounting basis) for the trailing 36 months, less dividends paid by KICO during such period. As of December 31, 2020, the maximum permissible distribution that KICO could pay without prior regulatory approval was approximately \$2,560,000. The aggregate maximum amount of dividends permitted by law to be paid by an insurance company does not necessarily define an insurance company’s actual ability to pay dividends. The actual ability to pay dividends may be further constrained by business and regulatory considerations, such as the impact of dividends on surplus, by our competitive position and by the amount of premiums that we can write. State insurance regulators have broad discretion to limit the payment of dividends by insurance companies. Our ability to pay interest on the Notes as it comes due and the principal of the Notes at their maturity may be limited by these regulatory constraints.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **Risks Related to Our Common Stock**

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

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

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

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

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

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

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

We have an effective registration statements on Form S-8 under the Securities Act of 1933, as amended (the “Securities Act”), an aggregate of 1,400,000 shares of our common stock issuable under our 2014 Equity Participation Plan (the “2014 Plan”).

As of December 31, 2020, options to purchase 119,966 shares of our common stock, and 370,964 shares subject to unvested restricted stock grants, were outstanding under the 2014 Plan and 843,316 shares were reserved for issuance thereunder. We have also registered up to \$39,290,000 of our securities pursuant to registration statements on Form S-3, which we may sell from time to time in one or more offerings. The shares subject to the registration statements on Form S-3 will be freely tradeable in the public market. In addition, the shares issuable pursuant to the registration statements on Form S-8 will be freely tradable in the public market, except for shares held by our affiliates.

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

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

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

As of March 17, 2021, our executive officers and directors beneficially owned 881,383 shares of our common, representing 8.2% of the outstanding shares of our common stock.

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

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

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

**ITEM 2. PROPERTIES.**

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

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

**ITEM 3. None.**

**ITEM 4. MINE SAFETY DISCLOSURE.**

Not applicable.

**PART II**

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

**Market Information**

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

**Holders**

As of March 17, 2021, there were 199 record holders of our common stock.

**Dividends**

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

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

Our ability to pay dividends depends, in part, on the ability of KICO to pay dividends to us. KICO, as an insurance subsidiary, is subject to significant regulatory restrictions limiting its ability to declare and pay dividends. These restrictions are related to surplus and net investment income. Without the prior approval of the DFS, dividends are restricted to the lesser of 10% of surplus or 100% of investment income (on a statutory accounting basis) for the trailing 36 months, less dividends paid by KICO during such period. As of December 31, 2020, the maximum distribution that KICO could pay without prior regulatory approval was approximately \$2,560,000, which is based on investment income for the trailing 36 months, net of dividends paid by KICO during such period. See "Business – Government Regulation" and "Management's Discussion and Analysis of Financial Condition and Results of Operation – Liquidity" in Items 1 and 7, respectively, of this Annual Report.

**Recent Sales of Unregistered Securities**

None.



**Issuer Purchases of Equity Securities**

The following table sets forth certain information with respect to purchases of common stock made by us during the quarter ended December 31, 2020:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Be Purchased Under the Plans or Programs
10/1/20 – 10/31/20	-	-	-	-
11/1/20 – 11/30/20	9,000	\$ 6.66	-	-
12/1/20 – 12/31/20	49,383	\$ 6.48	-	-
Total	<u>58,383</u>	\$ 6.54	<u>-</u>	<u>-</u>

(1) Purchases were made by us in open market transactions.

**ITEM 6. SELECTED FINANCIAL DATA.**

This item is not applicable to smaller reporting companies.

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

We offer property and casualty insurance products to individuals through our wholly owned subsidiary, Kingstone Insurance Company ("KICO"). KICO's insureds are located primarily in downstate New York, consisting of New York City, Long Island and Westchester County, although we are actively writing business in New Jersey, Rhode Island, Connecticut and Massachusetts. We are licensed in the States of New York, New Jersey, Rhode Island, Connecticut, Massachusetts, Pennsylvania, Maine, and New Hampshire. For the year ended December 31, 2020, 80.0% of KICO's direct written premiums came from the New York policies.

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

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

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

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

### **Principal Revenue and Expense Items**

**Net premiums earned:** Net premiums earned is the earned portion of our written premiums, less that portion of premium that is ceded to third party reinsurers under reinsurance agreements. The amount ceded under these reinsurance agreements is based on a contractual formula contained in the individual reinsurance agreement. Insurance premiums are earned on a pro rata basis over the term of the policy. At the end of each reporting period, premiums written that are not earned are classified as unearned premiums and are earned in subsequent periods over the remaining term of the policy. Our insurance policies have a term of one year. Accordingly, for a one-year policy written on July 1, 2020, we would earn half of the premiums in 2020 and the other half in 2021.

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

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

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

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

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

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

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

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

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

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

## **Product Lines**

Our product lines include the following:

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

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

In May 2019, due to the poor performance of this line we placed a moratorium on new commercial lines and new commercial umbrella submissions while we further reviewed this business. In July 2019, due to the continuing poor performance of these lines, we made the decision to no longer underwrite commercial lines or commercial umbrella risks. In-force policies as of July 31, 2019 for these lines were non-renewed at the end of their annual terms. As of December 31, 2020 there are no commercial liability policies in-force. For the year ended December 31, 2020, these expired policies represent approximately 2.5% of net premiums earned and 33.7% of loss and LAE reserves net of reinsurance recoverables. See discussion below under “Additional Financial Information”.

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

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

## Key Measures

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

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

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

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

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

## Distribution Channels

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

(\$ in thousands)	Year ended December 31, 2020		Year ended December 31, 2019	
	Amount	Percent	Amount	Percent
Direct Written Premiums				
Core Independent	\$ 123,755	76.4%	\$ 120,625	80.6%
Expansion Independent (1)	30,953	19.1%	24,253	16.2%
Alternative Distribution through Cosi	7,233	4.5%	4,799	3.2%
Total	<u>\$ 161,941</u>	<u>100.0%</u>	<u>\$ 149,677</u>	<u>100.0%</u>

(1) Outside of New York

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

For the years ended December 31, 2020 and 2019, Alternative Distribution made up 4.5% and 3.2%, respectively, of direct written premiums for our homeowners and dwelling fire components of personal lines. As discussed above, on July 10, 2020, KICO's A.M. Best Financial Strength Rating was downgraded from A- (Excellent) to B++ (Good). This action has resulted in and will continue to result in a decrease in the business from Cosi, a multi-state licensed general agent that had partnered with name-brand carriers, some of which require an A.M. Best rating of A- (Excellent) from its partners.

### Critical Accounting Policies and Estimates

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

We believe that the most critical accounting policies relate to the reporting of reserves for loss and LAE, including losses that have occurred but have not been reported prior to the reporting date, amounts recoverable from third party reinsurers, deferred ceding commission revenue, deferred policy acquisition costs, deferred income taxes, the impairment of investment securities, intangible assets and the valuation of stock-based compensation. See Note 2 to the Consolidated Financial Statements following Item 16 of this Annual Report.

**Consolidated Results of Operations**

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

(\$ in thousands)	Years ended December 31,			
	2020	2019	Change	Percent
<b>Revenues</b>				
Direct written premiums	\$ 169,318	\$ 171,214	\$ (1,896)	(1.1)%
Assumed written premiums	-	1	(1)	na%
	<u>169,318</u>	<u>171,215</u>	<u>(1,897)</u>	<u>(1.1)%</u>
Ceded written premiums				
Ceded to quota share treaties in force during the period	33,250	7,623	25,627	336.2%
Unearned premiums ceded to new quota share treaty (1)	-	16,320	(16,320)	(100.0)%
Return of premiums previously ceded to prior quota share treaties (1)	(17,440)	-	(17,440)	na%
Ceded to quota share treaties	15,810	23,943	(8,133)	(34.0)%
Ceded to excess of loss treaties	2,007	1,879	128	6.8%
Ceded to catastrophe treaties	24,438	19,814	4,624	23.3%
Total ceded written premiums	<u>42,255</u>	<u>45,636</u>	<u>(3,381)</u>	<u>(7.4)%</u>
Net written premiums	<u>127,063</u>	<u>125,579</u>	<u>1,484</u>	<u>1.2%</u>
Change in unearned premiums				
Direct and assumed	374	(11,351)	11,725	(103.3)%
Ceded to quota share treaties	(19,356)	13,395	(32,751)	244.5%
Change in net unearned premiums	<u>(18,982)</u>	<u>2,044</u>	<u>(21,026)</u>	<u>1,028.7%</u>
Premiums earned				
Direct and assumed	169,692	159,864	9,828	6.1%
Ceded to reinsurance treaties	(61,611)	(32,240)	(29,371)	(91.1)%
Net premiums earned	<u>108,081</u>	<u>127,624</u>	<u>(19,543)</u>	<u>(15.3)%</u>
Ceding commission revenue	14,202	4,651	9,551	205.4%
Net investment income	6,506	6,869	(363)	(5.3)%
Net gains on investments	1,591	4,591	(3,000)	(65.3)%
Other income	990	1,385	(395)	(28.5)%
Total revenues	<u>131,370</u>	<u>145,120</u>	<u>(13,750)</u>	<u>(9.5)%</u>
<b>Expenses</b>				
Loss and loss adjustment expenses				
Direct and assumed:				
Loss and loss adjustment expenses excluding the effect of catastrophes	72,842	94,775	(21,933)	(23.1)%
Losses from catastrophes, tropical storm Isaias (2)(3)	16,857	-	16,857	na%
Losses from catastrophes, all others (2)	4,683	8,177	(3,494)	(42.7)%
Total direct and assumed loss and loss adjustment expenses	<u>94,382</u>	<u>102,952</u>	<u>(8,570)</u>	<u>(8.3)%</u>
Ceded loss and loss adjustment expenses:				
Loss and loss adjustment expenses excluding the effect of catastrophes	18,013	12,287	5,726	46.6%
Losses from catastrophes, tropical storm Isaias (2)(3)	8,732	-	8,732	na%
Losses from catastrophes, all others (2)	1,206	482	724	150.2%
Total ceded loss and loss adjustment expenses	<u>27,951</u>	<u>12,769</u>	<u>15,182</u>	<u>118.9%</u>
Net loss and loss adjustment expenses:				
Loss and loss adjustment expenses excluding the effect of catastrophes	54,829	82,488	(27,659)	(33.5)%
Losses from catastrophes, tropical storm Isaias (2)(3)	8,125	-	8,125	na%
Losses from catastrophes, all others (2)	3,477	7,695	(4,218)	(54.8)%
Net loss and loss adjustment expenses	<u>66,431</u>	<u>90,183</u>	<u>(23,752)</u>	<u>(26.3)%</u>
Commission expense	31,828	30,093	1,735	5.8%
Other underwriting expenses	25,425	24,420	1,005	4.1%
Other operating expenses	4,283	3,835	448	11.7%
Depreciation and amortization	2,865	2,546	319	12.5%
Interest expense	1,826	1,826	-	-%
Total expenses	<u>132,659</u>	<u>152,903</u>	<u>(20,245)</u>	<u>(13.2)%</u>
Loss before taxes	(1,288)	(7,783)	6,495	83.5%
Income tax benefit	(2,260)	(1,816)	(444)	(24.4)%
<b>Net income (loss)</b>	<u>\$ 972</u>	<u>\$ (5,967)</u>	<u>\$ 6,939</u>	<u>116.3%</u>



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- (1) Effective July 1, 2019, our personal lines 10% quota share treaty expired on a run-off basis. Effective December 15, 2019, we entered into a 25% quota share treaty. Effective December 31, 2020, our personal lines 25% quota share treaty expired on a cut-off basis.
- (2) The years ended December 31, 2020 and 2019 include catastrophe losses, which are defined as losses from an event for which a catastrophe bulletin and related serial number has been issued by the Property Claims Services (PCS) unit of the Insurance Services Office (ISO). PCS catastrophe bulletins are issued for events that cause more than \$25 million in total insured losses and affect a significant number of policyholders and insurers.
- (3) The year ended December 31, 2020 includes catastrophe losses from Tropical Storm Isaias, which has been designated PCS Storm 2044.

	Years ended December 31,			
	2020	2019	Percentage Point Change	Percent Change
<b>Key ratios:</b>				
Net loss ratio	61.5%	70.7%	(9.2)	(13.0)%
Net underwriting expense ratio	38.9%	38.0%	0.9	2.4%
Net combined ratio	100.4%	108.7%	(8.3)	(7.6)%

Direct Written Premiums

Direct written premiums during the year ended December 31, 2020 (“Year Ended 2020”) were \$169,318,000 compared to \$171,214,000 during the year ended December 31, 2019 (“Year Ended 2019”). The decrease of \$1,896,000, or 1.1%, was primarily due to the decrease in premiums from our commercial lines business as result of our decision in July 2019 to no longer underwrite this line of business. Direct written premiums from our personal lines business in Year Ended 2020 were \$162,184,000, an increase of \$12,264,000, or 8.2%, from \$149,920,000 in Year Ended 2019.

Beginning in 2017 we started writing homeowners policies in New Jersey. Through 2019 we expanded to Rhode Island, Massachusetts and Connecticut. We refer to our New York business as our “Core” business and the business outside of New York as our “Expansion” business. Direct written premiums from our Expansion business were \$33,914,000 in Year Ended 2020, an increase of \$8,267,000, or 32.2% compared to \$25,647,000 in Year Ended 2019.

Net Written Premiums and Net Premiums Earned

Through June 30, 2019, our quota share reinsurance treaties were on a July 1 through June 30 fiscal year basis. Effective December 15, 2019, we entered into a quota share reinsurance treaty for our personal lines business covering the period from December 15, 2019 through December 30, 2020 (“2019/2020 Treaty”). Our personal lines quota share reinsurance treaty in effect for Year Ended 2019 was covered through June 30, 2019 (together with the run-off period) under a treaty covering a two-year period from July 1, 2017 through June 30, 2019 (“2017/2019 Treaty”). The treaty in effect during Year Ended 2019 was covered through June 30, 2019 (together with the run-off period) under the July 1, 2018 through June 30, 2019 treaty year (“2018/2019 Treaty Year”). The following table describes the quota share reinsurance ceding rates in effect for each treaty year during Year ended 2020 and Year Ended 2019 under the 2019/2020 Treaty and the 2017/2019 Treaty, respectively. This table should be referred to in conjunction with the discussions for net written premiums, net premiums earned, ceding commission revenue and net loss and loss adjustment expenses that follow.



Years ended December 31,	
2020	2019
("2019/2020 Treaty")	("2018/2019 Treaty Year")

**Quota share reinsurance rates**

Personal lines	25% (2)	10% (1)
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- (1) The 2018/2019 Treaty Year, covered under the 2017/2019 Treaty, expired on a run-off basis effective July 1, 2019 through June 30, 2020 (the “2019 Run-off”).
- (2) The 2019/2020 Treaty was effective December 15, 2019 with a quota share reinsurance rate of 25%. See “Reinsurance” below for changes to our personal lines quota share treaty effective December 15, 2019, and July 1, 2019 and 2018.

Net written premiums increased \$1,484,000, or 1.2%, to \$127,063,000 in Year Ended 2020 from \$125,579,000 in Year Ended 2019. Net written premiums include direct and assumed premiums, less the amount of written premiums ceded under our reinsurance treaties (quota share, excess of loss, and catastrophe). The increase in net written premiums in Year Ended 2020 was attributable to the inception of the 2019/2020 Treaty on December 15, 2019 on a cut-off basis (see table above) and the decrease in commercial lines premiums, which are not subject to a quota share treaty. In Year Ended 2020, our premiums ceded under quota share treaties in force increased by \$25,627,000 over the comparable ceded premiums in Year Ended 2019. Our personal lines business was subject to the 2019/2020 Treaty from December 15, 2019 through December 30, 2020. Our personal lines business was subject to the 2017/2019 Treaty under the 2018/2019 Treaty Year through June 30, 2019. Following June 30, 2019, any earned premium and associated claims for policies still in force continued to be ceded under the 10% quota share rate until such policies expired (run-off) over the next year. The 2019 run-off period was from July 1, 2019 through June 30, 2020 and there was no return of unearned premiums under this arrangement.

*Excess of loss reinsurance treaties*

An increase in written premiums will increase the premiums ceded under our excess of loss treaties. In Year Ended 2020, our ceded excess of loss reinsurance premiums increased by \$128,000 over the comparable ceded premiums for Year Ended 2019. The increase was due to an increase in premiums subject to excess of loss reinsurance.

*Catastrophe reinsurance treaty*

Most of the premiums written under our personal lines policies are also subject to our catastrophe treaties. An increase in our personal lines business gives rise to more property exposure, which increases our exposure to catastrophe risk; therefore, our premiums ceded under catastrophe treaties will increase. This results in an increase in premiums ceded under our catastrophe treaties provided that reinsurance rates are stable or are increasing. In Year Ended 2020, our premiums ceded under catastrophe treaties increased by \$4,624,000 over the comparable ceded premiums in Year Ended 2019. The change was due to an increase in our catastrophe limit purchased through June 30, 2020, partially offset by a decrease in our limit effective July 1, 2020 and an increase in reinsurance rates effective July 1, 2019. Through June 30, 2020, our ceded catastrophe premiums were paid based on the total direct written premiums subject to the catastrophe reinsurance treaty. Effective July 1, 2020, and continuing through June 30, 2021, our ceded catastrophe premiums will be paid based on the total insured value of our risks calculated as of August 31, 2021.

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*Net premiums earned*

Net premiums earned decreased \$19,543,000, or 15.3%, to \$108,081,000 in Year Ended 2020 from \$127,624,000 in Year Ended 2019. The decrease was due to the inception of the 2019/2020 Treaty on December 15, 2019 and the decrease in commercial lines premiums, which are not subject to a quota share treaty. The expired 2017/2019 Treaty under the 2018/2019 Treaty Year was in run-off through June 30, 2020.

Ceding Commission Revenue

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

(\$ in thousands)	Years ended December 31,			
	2020	2019	Change	Percent
Provisional ceding commissions earned	\$ 14,119	\$ 5,446	\$ 8,673	159.3%
Contingent ceding commissions earned	83	(795)	878	n/a
Total ceding commission revenue	\$ 14,202	\$ 4,651	\$ 9,551	205.4%

Ceding commission revenue was \$14,202,000 in Year Ended 2020 compared to \$4,651,000 in Year Ended 2019. The increase of \$9,551,000, or 205.4%, was due to an increase in both provisional ceding commissions earned and contingent ceding commissions earned. The increase in provisional ceding commissions occurred due to the increase in quota share reinsurance rates effective December 15, 2019 (see below for discussion of provisional ceding commissions earned and contingent ceding commissions earned).

*Provisional Ceding Commissions Earned*

We receive a provisional ceding commission based on ceded written premiums. The \$8,673,000 increase in provisional ceding commissions earned is primarily due to the increase in the quota share ceding rate effective December 15, 2019 to 25%, from the 10% rate in effect for part of Year Ended 2019. There was an increase in ceded premiums in Year Ended 2020 available from which to earn ceding commissions compared to Year Ended 2019 due to the changes in quota share ceding rates, the elimination of the 10% quota share treaty on effective July 1, 2019, and an increase in personal lines direct written premiums subject to the quota share.

*Contingent Ceding Commissions Earned*

The 2019/2020 Treaty and 2017/2019 Treaty structure calls for a higher upfront provisional ceding commission and there is not an opportunity to earn additional contingent ceding commissions under these treaties. The amount of contingent ceding commissions we are eligible to receive under our prior years' quota share treaties is subject to change based on losses incurred related to claims with accident dates before July 1, 2017. Under our prior years' quota share treaties, we received a contingent ceding commission based on a sliding scale in relation to the losses incurred under our quota share treaties. The lower the ceded loss ratio, the more contingent commission we receive.

Net Investment Income

Net investment income was \$6,506,000 in Year Ended 2020 compared to \$6,869,000 in Year Ended 2019, a decrease of \$363,000, or 5.3%. The average yield on invested assets was 3.39% as of December 31, 2020 compared to 3.51% as of December 31, 2019.

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Cash and invested assets were \$222,314,000 as of December 31, 2020 compared to \$231,700,000 as of December 31, 2019. The \$9,386,000 decrease in cash and invested assets was primarily attributable to a decrease in operating cash flows for the Year Ended 2020.

Net Gains and Losses on Investments

Net gains on investments were \$1,591,000 in Year Ended 2020 compared to net gains of \$4,591,000 in Year Ended 2019. Unrealized gains on our equity securities and other investments in Year Ended 2020 were \$758,000, compared to unrealized gains of \$4,562,000 in Year Ended 2019. Realized gains on sales of investments were \$832,000 in Year Ended 2020 compared to realized gains of \$29,000 in Year Ended 2019.

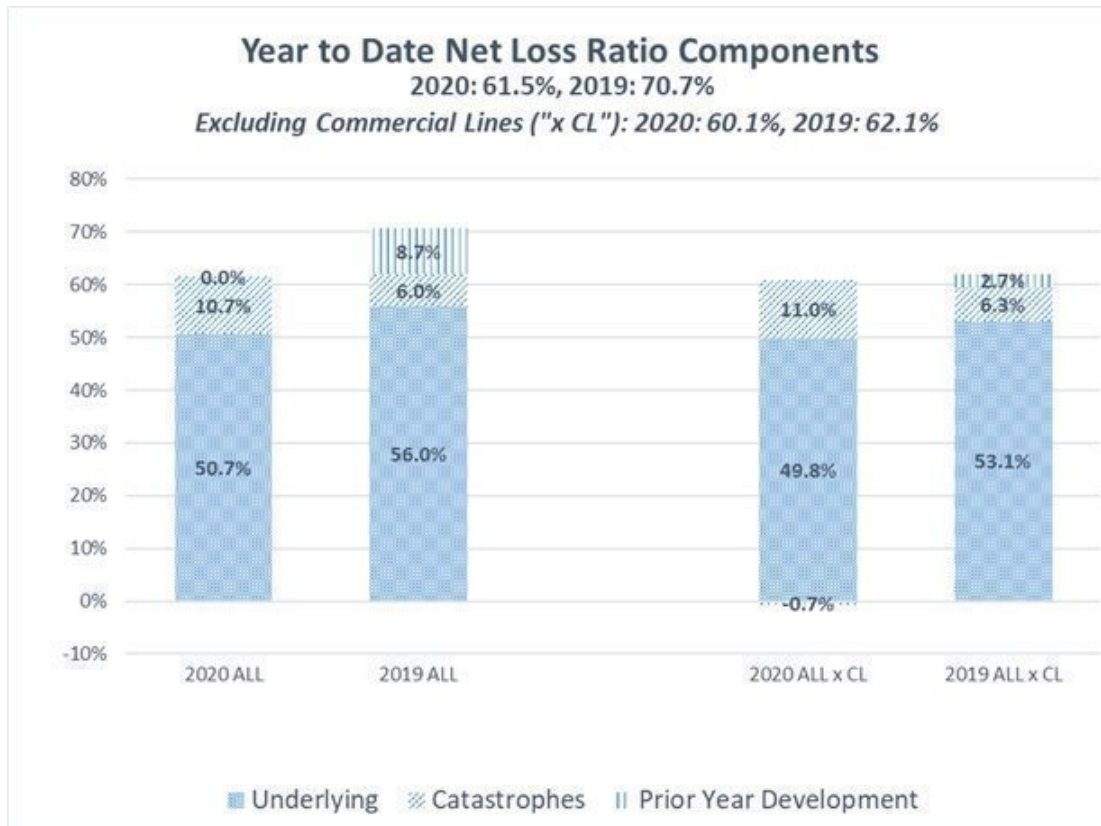
Other Income

Other income was \$990,000 in Year Ended 2020 compared to \$1,385,000 in Year Ended 2019. The decrease of \$395,000, or 28.5%, was primarily due to a decrease in finance and service charges during Year Ended 2020.

Net Loss and LAE

Net loss and LAE was \$66,431,000 in Year Ended 2020 compared to \$90,182,000 in Year Ended 2019. The net loss ratio was 61.5% in Year Ended 2020 compared to 70.7% in Year Ended 2019, a decrease of 9.2 percentage points.

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



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

The net loss ratio was 61.5% for Year Ended 2020. Despite the significant impact from Tropical Storm Isaias in August, the loss ratio for Year Ended 2020 still improved 9.2 points, from 70.7% in Year Ended 2019. The loss ratio improved due to several factors, including a reduced impact from prior year loss development and an improvement in underlying loss ratio driven by reduced severity.

Prior year development was stable for Year Ended 2020, with minimal impact on the overall loss ratio. This compared to 8.7 points of unfavorable impact in Year Ended 2019, which was primarily related to adverse loss development from commercial lines business of which there were no in-force policies as of December 31, 2020.

The impact of catastrophe losses was larger in Year Ended 2020. The total catastrophe loss ratio for Year Ended 2020 was 10.7 points, compared to 6.0 points for Year Ended 2019. During Tropical Storm Isaias we incurred \$8.125 million of losses, or a 7.5-point impact on the overall loss ratio. There were 13 PCS catastrophe events (excluding Tropical Storm Isaias) during Year Ended 2020, with a 3.2-point impact on the overall loss ratio compared to 9 PCS catastrophe events during Year Ended 2019 with a 6.0-point impact on the overall loss ratio as noted above.

The underlying loss ratio (loss ratio excluding impact of catastrophe and prior year development) was 50.7% for Year Ended 2020, a decrease of 5.3 points from the 56.0% underlying loss ratio for Year Ended 2019. The improvement was primarily due to reduced severity and our exit from the commercial liability lines of business. Excluding commercial lines, the underlying loss ratio improved 3.3 points to 49.8% for Year Ended 2020 compared to from 53.1% for Year Ended 2019.

Commission Expense

Commission expense was \$31,828,000 in Year Ended 2020 or 18.8% of direct earned premiums. Commission expense was \$30,093,000 in Year Ended 2019 or 18.8% of direct earned premiums. The increase of \$1,735,000 is primarily due to the increase in direct earned premiums in Year Ended 2020 as compared to Year Ended 2019.

Other Underwriting Expenses

Other underwriting expenses were \$25,425,000 in Year Ended 2020 compared to \$24,420,000 in Year Ended 2019. The increase of \$1,005,000, or 4.1%, was primarily due to expenses related to growth in personal lines direct written premiums and salaries. Expenses directly related to the increase in personal lines direct written premiums primarily consist of underwriting expenses, software usage fees, and state premium taxes. Expenses indirectly related to the increase in personal lines direct written premiums primarily consist of salaries along with related other employment costs.

Our largest single component of other underwriting expenses is salaries and employment costs, with costs of \$10,830,000 in Year Ended 2020 compared to \$10,358,000 in Year Ended 2019. The increase of \$472,000, or 4.6%, was less than the 8.2% increase in personal lines direct written premiums. The increase in employment costs was attributable to the hiring of additional highly experienced management and separation payments to terminated employees, offset by staff reductions.

Our net underwriting expense ratio in Year Ended 2020 was 38.9% compared to 38.0% in Year Ended 2019. The following table shows the individual components of our net underwriting expense ratio for the periods indicated:

	<b>Year ended December 31,</b>		<b>Percentage Point Change</b>
	<b>2020</b>	<b>2019</b>	
Other underwriting expenses			
Employment costs	10.0%	8.1%	1.9
Underwriting fees (inspections/data services)	2.6	2.4	0.2
Other expenses	11.0	8.6	2.4
Total other underwriting expenses	<u>23.6</u>	<u>19.1</u>	<u>4.5</u>
Commission expense	<u>29.4</u>	<u>23.6</u>	<u>5.8</u>
Ceding commission revenue			
Provisional	(13.1)	(4.3)	(8.8)
Contingent	(0.1)	0.6	(0.7)
Total ceding commission revenue	<u>(13.2)</u>	<u>(3.7)</u>	<u>(9.5)</u>
Other income	<u>(0.9)</u>	<u>(1.0)</u>	<u>0.1</u>
Net underwriting expense ratio	<u>38.9%</u>	<u>38.0%</u>	<u>0.9</u>

The overall 9.5 percentage point increase in the benefit from ceding commissions was driven entirely by the change in our quota share ceding rates and its impact on provisional ceding commission revenue. The components of our net underwriting expense ratio related to other underwriting expenses, other income and commissions increased in all categories due to less retention beginning with the inception of the 2019/2020 Treaty on December 15, 2019, resulting in an overall 0.9 percentage point increase in the net underwriting expense ratio.

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### Other Operating Expenses

Other operating expenses, related to the expenses of our holding company and Cosi, were \$4,283,000 for Year Ended 2020 compared to \$3,835,000 for Year Ended 2019. The increase in Year Ended 2020 of \$448,000, or 11.7%, as compared to Year Ended 2019 was primarily due to increases in equity compensation. The increase in equity compensation was due to an annual restricted stock award pursuant to the employment agreement with Barry B. Goldstein, our Chief Executive Officer. Executive bonus compensation is accrued pursuant to the employment agreement in effect through December 31, 2022, however, no bonus expense was accrued for Year Ended 2020. The bonus, when applicable, is a one-time payment computed at the end of the three-year period ended December 31, 2019, and as of December 31, 2019 the three-year computation did not meet the required terms of profitability, resulting in no payment and a reversal of the \$698,000 previously accrued.

### Depreciation and Amortization

Depreciation and amortization was \$2,865,000 in Year Ended 2020 compared to \$2,546,000 in Year Ended 2019. The increase of \$319,000, or 12.5%, in depreciation and amortization was primarily due to depreciation of our new systems platform for handling business being written in Expansion states, newly purchased assets used to upgrade our systems infrastructure.

### Interest Expense

Interest expense in Year Ended 2020 and Year Ended 2019 was \$1,826,000. We incurred interest expense in connection with our \$30.0 million issuance of long-term debt in December 2017.

### Income Tax Benefit

Income tax benefit in Year Ended 2020 was \$2,260,000, which resulted in an effective tax benefit rate of 175.5%. Income tax benefit in Year Ended 2019 was \$1,816,000, which resulted in an effective tax benefit rate of 23.3%. Loss before taxes was \$1,288,000 in Year Ended 2020 compared to loss before taxes of \$7,783,000 in Year Ended 2019. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law, allowing for a five year carryback of 2019 NOL's. We elected on our 2019 federal income tax return to carry back the 2019 NOL of \$9,737,000 to tax years 2014 and 2015. The corporate tax rate in 2014 and 2015 was 34%, compared to the corporate tax rate of 21% in 2019. We will also elect on our 2020 federal income tax return to carry back the 2020 NOL of \$5,715,000 to tax year 2015. The corporate tax rate in 2015 was 34%, compared to the corporate tax rate of 21% in 2020.

### Net Income (Loss)

Net income was \$972,000 in Year Ended 2020 compared to a net loss of \$5,967,000 in Year Ended 2019. The increase in net income of \$6,939,000, or 116.3%, was due to the circumstances described above, which caused the decrease in our net loss ratio and increase in ceding commission, partially offset by the decrease in our net premiums earned, other underwriting and operating expenses, depreciation and amortization.

### **Additional Financial Information**

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

	Years ended December 31,	
	2020	2019
<b>Gross premiums written:</b>		
Personal lines	\$ 162,184,437	\$ 149,920,020
Livery physical damage	7,055,668	10,576,156
Other(1)	245,842	593,945
Total without commercial lines	169,485,947	161,090,121
Commercial lines (in run-off effective July 2019)(2)	(168,043)	10,124,908
Total gross premiums written	<u>\$ 169,317,904</u>	<u>\$ 171,215,029</u>
<b>Net premiums written:</b>		
Personal lines(3)	\$ 120,362,688	\$ 105,774,168
Livery physical damage	7,055,668	10,576,156
Other(1)	218,853	549,978
Total without commercial lines	127,637,209	116,900,302
Commercial lines (in run-off effective July 2019)(2)	(574,688)	8,678,829
Total net premiums written	<u>\$ 127,062,521</u>	<u>\$ 125,579,131</u>
<b>Net premiums earned:</b>		
Personal lines(3)	\$ 96,463,184	\$ 102,943,699
Livery physical damage	8,706,984	10,565,739
Other(1)	198,853	518,671
Total without commercial lines	105,369,021	114,028,109
Commercial lines (in run-off effective July 2019)(2)	2,711,608	13,595,333
Total net premiums earned	<u>\$ 108,080,629</u>	<u>\$ 127,623,442</u>
<b>Net loss and loss adjustment expenses(4):</b>		
Personal lines	\$ 56,312,702	\$ 62,157,739
Livery physical damage	2,641,801	5,209,065
Other(1)	27,425	605,994
Unallocated loss adjustment expenses	4,304,095	2,846,248
Total without commercial lines	63,286,023	70,819,046
Commercial lines (in run-off effective July 2019)(2)	3,145,049	19,363,278
Total net loss and loss adjustment expenses	<u>\$ 66,431,072</u>	<u>\$ 90,182,324</u>
<b>Net loss ratio(4):</b>		
Personal lines	58.4%	60.4%
Livery physical damage	30.3%	49.3%
Other(1)	22.4%	116.8%
Total without commercial lines	60.1%	62.1%
Commercial lines (in run-off effective July 2019)(2)	116.0%	142.4%
Total	61.5%	70.7%

- (1) “Other” includes, among other things, premiums and loss and loss adjustment expenses from our participation in a mandatory state joint underwriting association and loss and loss adjustment expenses from commercial auto.
- (2) In July 2019, we decided that we will no longer underwrite Commercial Liability risks. See discussions above regarding the discontinuation of this line of business.
- (3) See discussions above with regard to “Net Written Premiums and Net Premiums Earned”, as to changes in quota share ceding rates effective December 31, 2020, December 15, 2019 and July 1, 2019.
- (4) See discussions above with regard to “Net Loss and LAE”, as to catastrophe losses in the years ended December 31, 2020 and 2019.

**Insurance Underwriting Business on a Standalone Basis**

Our insurance underwriting business reported on a standalone basis for the years ended December 31, 2020 and 2019 follows:

	Years ended December 31,	
	2020	2019
<b>Revenues</b>		
Net premiums earned	\$ 108,080,629	\$ 127,623,442
Ceding commission revenue	14,202,353	4,650,851
Net investment income	6,504,983	6,821,248
Net gains on investments	1,549,099	4,495,230
Other income	970,595	1,306,820
Total revenues	<u>131,307,659</u>	<u>144,897,591</u>
<b>Expenses</b>		
Loss and loss adjustment expenses	66,431,072	90,182,324
Commission expense	31,828,174	30,093,106
Other underwriting expenses	25,424,779	24,420,208
Depreciation and amortization	2,732,128	2,446,959
Total expenses	<u>126,416,153</u>	<u>147,142,597</u>
Income (loss) from operations	4,891,506	(2,245,006)
Income tax expense (benefit)	200,339	(785,784)
<b>Net income (loss)</b>	<u>\$ 4,691,167</u>	<u>\$ (1,459,222)</u>
<b>Key Measures:</b>		
Net loss ratio	61.5%	70.7%
Net underwriting expense ratio	38.9%	38.0%
Net combined ratio	<u>100.4%</u>	<u>108.7%</u>
Reconciliation of net underwriting expense ratio:		
Acquisition costs and other underwriting expenses	\$ 57,252,953	\$ 54,513,314
Less: Ceding commission revenue	(14,202,353)	(4,650,851)
Less: Other income	(970,595)	(1,306,820)
Net underwriting expenses	<u>\$ 42,080,005</u>	<u>\$ 48,555,643</u>
Net premiums earned	<u>\$ 108,080,629</u>	<u>\$ 127,623,442</u>
Net Underwriting Expense Ratio	<u>38.9%</u>	<u>38.0%</u>



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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:

	<u>Direct</u>	<u>Assumed</u>	<u>Ceded</u>	<u>Net</u>
<b>Year ended December 31, 2020</b>				
Written premiums	\$ 169,317,904	\$ -	\$ (42,255,383)	\$ 127,062,521
Change in unearned premiums	373,966	-	(19,355,858)	(18,981,892)
Earned premiums	<u>\$ 169,691,870</u>	<u>\$ -</u>	<u>\$ (61,611,241)</u>	<u>\$ 108,080,629</u>
Loss and loss adjustment expenses excluding the effect of catastrophes				
Catastrophe loss	\$ 72,841,957	\$ -	\$ (18,012,645)	\$ 54,829,312
Loss and loss adjustment expenses	21,540,120	-	(9,938,360)	11,601,760
	<u>\$ 94,382,077</u>	<u>\$ -</u>	<u>\$ (27,951,005)</u>	<u>\$ 66,431,072</u>
Loss ratio excluding the effect of catastrophes	42.9%	0.0%	29.2%	50.7%
Catastrophe loss	12.7%	0.0%	16.2%	10.8%
Loss ratio	<u>55.5%</u>	<u>0.0%</u>	<u>45.4%</u>	<u>61.5%</u>
<b>Year ended December 31, 2019</b>				
Written premiums	\$ 171,214,091	\$ 939	\$ (45,635,899)	\$ 125,579,131
Change in unearned premiums	(11,350,864)	(243)	13,395,418	2,044,311
Earned premiums	<u>\$ 159,863,227</u>	<u>\$ 696</u>	<u>\$ (32,240,481)</u>	<u>\$ 127,623,442</u>
Loss and loss adjustment expenses excluding the effect of catastrophes				
Catastrophe loss	\$ 94,776,624	\$ (1,813)	\$ (12,287,304)	\$ 82,487,507
Loss and loss adjustment expenses	8,176,529	-	(481,712)	7,694,817
	<u>\$ 102,953,153</u>	<u>\$ (1,813)</u>	<u>\$ (12,769,016)</u>	<u>\$ 90,182,324</u>
Loss ratio excluding the effect of catastrophes	59.3%	-260.5%	38.1%	64.6%
Catastrophe loss	5.1%	0.0%	1.5%	6.1%
Loss ratio	<u>64.4%</u>	<u>-260.5%</u>	<u>39.6%</u>	<u>70.7%</u>

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The key measures for our insurance underwriting business for the years ended December 31, 2020 and 2019 are as follows:

	Years ended December 31,	
	2020	2019
Net premiums earned	\$ 108,080,629	\$ 127,623,442
Ceding commission revenue	14,202,353	4,650,851
Other income	970,595	1,306,820
Loss and loss adjustment expenses (1)	66,431,072	90,182,324
Acquisition costs and other underwriting expenses:		
Commission expense	31,828,174	30,093,106
Other underwriting expenses	25,424,779	24,420,208
Total acquisition costs and other underwriting expenses	57,252,953	54,513,314
Underwriting loss	<u>\$ (430,448)</u>	<u>\$ (11,114,525)</u>
Key Measures:		
Net loss ratio excluding the effect of catastrophes	50.7%	64.6%
Effect of catastrophe loss on net loss ratio (1)	10.8%	6.1%
Net loss ratio	<u>61.5%</u>	<u>70.7%</u>
Net underwriting expense ratio excluding the effect of catastrophes	38.9%	38.0%
Effect of catastrophe loss on net underwriting expense ratio	0.0%	0.0%
Net underwriting expense ratio	<u>38.9%</u>	<u>38.0%</u>
Net combined ratio excluding the effect of catastrophes	89.6%	102.6%
Effect of catastrophe loss on net combined ratio (1)	10.8%	6.1%
Net combined ratio	<u>100.4%</u>	<u>108.7%</u>
Reconciliation of net underwriting expense ratio:		
Acquisition costs and other underwriting expenses	\$ 57,252,953	\$ 54,513,314
Less: Ceding commission revenue	(14,202,353)	(4,650,851)
Less: Other income	(970,595)	(1,306,820)
	<u>\$ 42,080,005</u>	<u>\$ 48,555,643</u>
Net earned premium	<u>\$ 108,080,629</u>	<u>\$ 127,623,442</u>
Net Underwriting Expense Ratio	<u>38.9%</u>	<u>38.0%</u>

(1) For the years ended December 31, 2020 and 2019, includes the sum of net catastrophe losses and loss adjustment expenses of \$11,601,760 and \$7,694,817, respectively.

**Investments**

**Portfolio Summary**

The following table presents a breakdown of the amortized cost, aggregate estimated fair value and unrealized gains and losses by investment type as of December 31, 2020 and 2019:

Available-for-Sale Securities

Category	December 31, 2020					
	Cost or	Gross	Gross Unrealized Losses		Estimated	% of
	Amortized	Unrealized	Less than	More than	Fair	Estimated
	Cost	Gains	12	12	Value	Fair Value
			Months	Months		
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 3,020,710	\$ 29,190	\$ -	\$ -	\$ 3,049,900	1.9%
Political subdivisions of States, Territories and Possessions	5,287,561	355,541	-	-	5,643,102	3.6%
Corporate and other bonds Industrial and miscellaneous	108,573,422	11,634,123	(13,216)	-	120,194,329	76.3%
Residential mortgage and other asset backed securities (1)	28,163,891	617,368	(7,371)	(111,947)	28,661,941	18.2%
Total fixed-maturity securities	<u>\$ 145,045,584</u>	<u>\$ 12,636,222</u>	<u>\$ (20,587)</u>	<u>\$ (111,947)</u>	<u>\$ 157,549,272</u>	<u>100.0%</u>

- (1) KICO placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its membership in the Federal Home Loan Bank of New York ("FHLBNY") see Note 9, in the accompanying consolidated financial statements following Item 16 of this Annual Report). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from the FHLBNY credit line. As of December 31, 2020, the estimated fair value of the eligible investments was approximately \$11,391,000. KICO will retain all rights regarding all securities if pledged as collateral. As of December 31, 2020, there was no outstanding balance on the FHLBNY credit line.

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

- (1) KICO placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its membership in FHLBNY (see note 9, in the accompanying consolidated financial statements following Item 16 of this Annual Report). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from the FHLBNY credit line. As of December 31, 2019, the estimated fair value of the eligible investments was approximately \$7,284,000. KICO will retain all rights regarding all securities if pledged as collateral. As of December 31, 2019, there was no outstanding balance on the FHLBNY credit line.

Equity Securities

The following table presents a breakdown of the cost, estimated fair value, and gross gains and losses of investments in equity securities as of December 31, 2020 and 2019:

Category	December 31, 2020				
	Cost	Gross Gains	Gross Losses	Estimated Fair Value	% of Estimated Fair Value
<b>Equity Securities:</b>					
Preferred stocks	\$ 18,097,942	\$ 853,277	\$ (426,942)	\$ 18,524,277	53.8%
Common stocks and exchange traded mutual funds	14,473,224	1,820,512	(404,700)	15,889,036	46.2%
<b>Total</b>	<b>\$ 32,571,166</b>	<b>\$ 2,673,789</b>	<b>\$ (831,642)</b>	<b>\$ 34,413,313</b>	<b>100.0%</b>

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

Other Investments

Pursuant to the definition of “Fair Value Measurement,” set forth in the Accounting Standards Codification 820 “Fair Value Measurement” (“ASC 820”), an entity is permitted, as a practical expedient, to estimate the fair value of an investment within the scope of ASC 820 using the net asset value (“NAV”) per share (or its equivalent) of the investment. The following table presents a breakdown of the cost, estimated fair value, and gross gain of our other investments as of December 31, 2020 and 2019:

Category	December 31, 2020			December 31, 2019		
	Cost	Gross Gains	Estimated Fair Value	Cost	Gross Gains	Estimated Fair Value
<b>Other Investments:</b>						
Hedge fund	\$ 1,999,381	\$ 1,519,245	\$ 3,518,626	\$ 1,999,381	\$ 585,532	\$ 2,584,913
<b>Total</b>	<b>\$ 1,999,381</b>	<b>\$ 1,519,245</b>	<b>\$ 3,518,626</b>	<b>\$ 1,999,381</b>	<b>\$ 585,532</b>	<b>\$ 2,584,913</b>

Held-to-Maturity Securities

The following table presents a breakdown of the amortized cost, aggregate estimated fair value and unrealized gains and losses by investment type as of December 31, 2020 and 2019:

Category	December 31, 2020					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	% of Estimated Fair Value
			Less than 12 Months	More than 12 Months		
U.S. Treasury securities	\$ 729,595	\$ 319,714	\$ -	\$ -	\$ 1,049,309	12.8%
Political subdivisions of States, Territories and Possessions	998,428	50,917	-	-	1,049,345	12.8%
Corporate and other bonds Industrial and miscellaneous	5,640,792	455,378	-	-	6,096,170	74.4%
<b>Total</b>	<b>\$ 7,368,815</b>	<b>\$ 826,009</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,194,824</b>	<b>100.0%</b>

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

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

A summary of the amortized cost and estimated fair value of our investments in held-to-maturity securities by contractual maturity as of December 31, 2020 and 2019 is shown below:

Remaining Time to Maturity	December 31, 2020		December 31, 2019	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Less than one year	\$ -	\$ -	\$ 500,000	\$ 499,165
One to five years	2,598,193	2,777,936	2,099,268	2,215,640
Five to ten years	1,502,603	1,727,316	620,134	655,923
More than 10 years	3,268,019	3,689,572	606,550	754,039
<b>Total</b>	<b>\$ 7,368,815</b>	<b>\$ 8,194,824</b>	<b>\$ 3,825,952</b>	<b>\$ 4,124,767</b>

**Credit Rating of Fixed-Maturity Securities**

The table below summarizes the credit quality of our available-for-sale fixed-maturity securities as of December 31, 2020 and 2019 as rated by Standard and Poor's (or, if unavailable from Standard and Poor's, then Moody's or Fitch):

Rating	December 31, 2020		December 31, 2019	
	Estimated Fair Market Value	Percentage of Fair Market Value	Estimated Fair Market Value	Percentage of Fair Market Value
U.S. Treasury securities	\$ 3,049,900	1.9%	\$ 7,061,100	4.2%
<b>Corporate and municipal bonds</b>				
AAA	1,453,924	0.9%	1,996,676	1.2%
AA	3,572,164	2.3%	8,809,480	5.2%
A	23,989,619	15.2%	34,636,236	20.6%
BBB	95,814,824	60.9%	89,501,460	53.1%
Non rated	1,006,901	0.6%	-	0.0%
Total corporate and municipal bonds	125,837,432	79.9%	134,943,852	80.1%
<b>Residential mortgage backed securities</b>				
AAA	5,467,075	3.5%	2,976,306	1.8%
AA	18,865,749	12.0%	18,440,382	11.0%
A	2,451,635	1.6%	2,471,761	1.5%
BBB	50,276	0.0%	-	0.0%
CCC	960,042	0.6%	1,174,273	0.7%
CC	62,029	0.0%	86,461	0.1%
C	15,161	0.0%	17,813	0.0%
D	119,144	0.1%	215,015	0.1%
Non rated	670,829	0.4%	849,218	0.5%
Total residential mortgage backed securities	28,661,940	18.2%	26,231,229	15.7%
<b>Total</b>	<b>\$ 157,549,272</b>	<b>100.0%</b>	<b>\$ 168,236,181</b>	<b>100.0%</b>

The table below details the average yield by type of fixed-maturity security as of December 31, 2020 and 2019:

Category	December 31, 2020	December 31, 2019
U.S. Treasury securities and obligations of U.S. government corporations and agencies	2.59%	2.18%
Political subdivisions of States, Territories and Possessions	3.05%	3.26%
Corporate and other bonds Industrial and miscellaneous	3.52%	3.73%
Residential mortgage backed securities	1.18%	2.01%
Total	3.07%	3.37%

The table below lists the weighted average maturity and effective duration in years on our fixed-maturity securities as of December 31, 2020 and 2019:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Weighted average effective maturity	5.2	4.8
Weighted average final maturity	6.6	6.3
Effective duration	4.7	4.3

***Fair Value Consideration***

As disclosed in Note 4 to the condensed consolidated financial statements, with respect to “Fair Value Measurements,” we define fair value as the price that would be received to sell an asset or paid to transfer a liability in a transaction involving identical or comparable assets or liabilities between market participants (an “exit price”). The fair value hierarchy distinguishes between inputs based on market data from independent sources (“observable inputs”) and a reporting entity’s internal assumptions based upon the best information available when external market data is limited or unavailable (“unobservable inputs”). The fair value hierarchy prioritizes fair value measurements into three levels based on the nature of the inputs. Quoted prices in active markets for identical assets have the highest priority (“Level 1”), followed by observable inputs other than quoted prices including prices for similar but not identical assets or liabilities (“Level 2”), and unobservable inputs, including the reporting entity’s estimates of the assumption that market participants would use, having the lowest priority (“Level 3”). As of December 31, 2020 and December 31, 2019, 81% and 80%, respectively, of the investment portfolio recorded at fair value was priced based upon quoted market prices.

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The table below summarizes the gross unrealized losses of our fixed-maturity securities available-for-sale and equity securities by length of time the security has continuously been in an unrealized loss position as of December 31, 2020 and 2019:

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



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

There were 16 securities at December 31, 2020 that accounted for the gross unrealized loss, none of which were deemed by us to be other than temporarily impaired. There were 39 securities at December 31, 2019 that accounted for the gross unrealized loss, none of which were deemed by us to be other than temporarily impaired. Significant factors influencing our determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent not to sell these securities and it being not more likely than not that we will be required to sell these investments before anticipated recovery of fair value to our cost basis.

## **Liquidity and Capital Resources**

### ***Cash Flows***

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

For the year ended December 31, 2020, the primary source of cash flow for our holding company was the dividends received from KICO, subject to statutory restrictions. For the year ended December 31, 2020, KICO paid dividends of \$6,000,000 to us.

KICO is a member of the Federal Home Loan Bank of New York ("FHLBNY"), which provides additional access to liquidity. Members have access to a variety of flexible, low cost funding through FHLBNY's credit products, enabling members to customize advances. Advances are to be fully collateralized; eligible collateral to pledge to FHLBNY includes residential and commercial mortgage backed securities, along with U.S. Treasury and agency securities. See Note 3 to our condensed consolidated financial statements – Investments, for eligible collateral held in a designated custodian account available for future advances. Advances are limited to 5% of KICO's net admitted assets as of the end of the previous quarter, which is September 30, 2020, and are due and payable within 90 days of borrowing. The maximum allowable advance as of December 31, 2020, based on the net admitted assets as of September 30, 2020, was approximately \$12,066,000. Advances are limited to 85% of the amount of available collateral, which was approximately \$9,682,000 as of December 31, 2020. There were no borrowings under this facility during the year ended December 31, 2020.

As of December 31, 2020, invested assets and cash in our holding company was approximately \$2,783,000. 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.

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

<i>Years Ended December 31,</i>	<b>2020</b>	<b>2019</b>
Cash flows provided by (used in):		
Operating activities	\$ (10,234,626)	\$ 29,859,049
Investing activities	581,293	(14,973,699)
Financing activities	(3,274,410)	(3,632,268)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(12,927,743)</b>	<b>11,253,082</b>
Cash and cash equivalents, beginning of period	32,391,485	21,138,403
<b>Cash and cash equivalents, end of period</b>	<b>\$ 19,463,742</b>	<b>\$ 32,391,485</b>

Net cash used in operating activities was \$10,235,000 in Year Ended 2020 as compared to net cash provided by \$29,859,000 in Year Ended 2019. The \$40,094,000 decrease in cash flows provided by operating activities in Year Ended 2020 was primarily a result of a decrease in cash arising from net fluctuations in assets and liabilities, partially offset by an increase in net income (adjusted for non-cash items) of \$16,065,000. The net fluctuations in assets and liabilities are related to operating activities of KICO as affected by growth or declines in its operations, payments on claims and changes in quota share ceding rates which are described above.

Net cash provided by investing activities was \$581,000 in Year Ended 2020 compared to net cash used of \$14,974,000 in Year Ended 2019. The \$15,555,000 increase in net cash flows for investing activities was the result of a \$25,016,000 increase in the sale of invested assets and a \$10,073,000 decrease in sales or maturities of invested assets.

Net cash used in financing activities was \$3,274,000 in Year Ended 2020 compared to \$3,632,000 used in Year Ended 2019. The \$358,000 decrease in net cash used in financing activities was attributable to a \$1,544,000 reduction in dividends paid, partially offset by \$1,183,000 purchases of treasury stock in Year Ended 2020 compared to Year Ended 2019.

**Reinsurance**

The following table provides summary information with respect to each reinsurer that accounted for more than 10% of our reinsurance recoverables on paid and unpaid losses and loss adjustment expenses as of December 31, 2020:

<b>(\$ in thousands)</b>	<b>A.M. Best Rating</b>	<b>Amount Recoverable as of December 31, 2020</b>	<b>%</b>
Cavello Bay Reinsurance Limited	A-	\$ 6,255	17.9%
Swiss Reinsurance America Corporation	A+	13,618	39.0%
Hannover Rueck SE	A+	7,806	22.3%
Allied World Assurance Company	A	3,780	10.8%
		31,459	90.0%
Others		3,482	10.0%
<b>Total</b>		<b>\$ 34,941</b>	<b>100.0%</b>

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

Through June 30, 2019, our quota share reinsurance treaties were on a July 1 through June 30 fiscal year basis. Effective December 15, 2019, we entered into a quota share reinsurance treaty for our personal lines business covering the period from December 15, 2019 through December 30, 2020 (“2019/2020 Treaty”). Effective December 31, 2020, the 2019/2020 Treaty expired on a cut off basis; this treaty was not renewed.

Our quota share reinsurance treaties in effect during Year Ended 2020 and 2019 for our personal lines business, which primarily consists of homeowners’ policies, were covered under the 2019/2020 Treaty and under a treaty covering a two-year period from July 1, 2017 through June 30, 2019 (“2017/2019 Treaty”). The 2017/2019 Treaty was in run-off effective from July 1, 2019 through June 30, 2020 (run-off period). The treaty in effect during Year Ended 2019 through June 30, 2019 (together with the run-off period) was covered under the July 1, 2018 through June 30, 2019 treaty year (“2018/2019 Treaty Year”).

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Effective July 1, 2019, our 2017/2019 Treaty and commercial umbrella treaty expired on a run-off basis; these treaties were not renewed. We entered into new excess of loss and catastrophe reinsurance treaties effective July 1, 2020. Material terms for our reinsurance treaties in effect for the treaty years shown below are as follows:

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

Line of Business	Treaty Year				
	December 31, 2020 to June 30, 2021	July 1, 2020 to December 30, 2020	December 15, 2019 to June 30, 2020	July 1, 2019 to December 14, 2019	July 1, 2018 to June 30, 2019
<b>Personal Lines:</b>					
Homeowners, dwelling fire and and canine legal liability					
Quota share treaty:					
Risk retained on initial \$1,000,000 of losses (7)	\$ 1,000,000	\$ 750,000	\$ 750,000	\$ 1,000,000	\$ 900,000
Losses per occurrence subject to quota share reinsurance coverage	None (7)	\$ 1,000,000	\$ 1,000,000	None	\$ 1,000,000
Expiration date	NA (7)	December 30, 2020	December 30, 2020	NA	June 30, 2019
Excess of loss coverage and facultative facility coverage (1)	\$ 8,000,000 in excess of \$ 1,000,000	\$ 8,000,000 in excess of \$ 1,000,000	\$ 9,000,000 in excess of \$ 1,000,000	\$ 9,000,000 in excess of \$ 1,000,000	\$ 9,000,000 in excess of \$ 1,000,000
Total reinsurance coverage per occurrence (7)	\$ 8,000,000	\$ 8,250,000	\$ 9,250,000	\$ 9,000,000	\$ 9,100,000
Losses per occurrence subject to reinsurance coverage	\$ 8,000,000	\$ 9,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000
Expiration date (7)	June 30, 2021	June 30, 2021	June 30, 2020	June 30, 2020	June 30, 2019

<b>Catastrophe Reinsurance:</b>					
Initial loss subject to personal lines quota share treaty	None (7)	\$ 7,500,000	\$ 7,500,000	None	\$ 5,000,000
Risk retained per catastrophe occurrence (2) (7)	\$ 10,000,000	\$ 8,125,000	\$ 5,625,000	\$ 7,500,000	\$ 4,500,000
Catastrophe loss coverage in excess of quota share coverage (3) (7)	\$ 475,000,000	\$ 475,000,000	\$ 602,500,000	\$ 602,500,000	\$ 445,000,000
Reinstatement premium protection (4) (5) (6)	Yes	Yes	Yes	Yes	Yes

- (1) For personal lines, includes the addition of an automatic facultative facility allowing KICO to obtain homeowners single risk coverage up to \$10,000,000 in total insured value, which covers direct losses from \$3,500,000 to \$10,000,000.
- (2) Plus losses in excess of catastrophe coverage. For the period July 1, 2020 through December 30, 2020, there was no reinsurance coverage for the \$2,500,000 gap between quota share limit of \$7,500,000 and first \$10,000,000 layer of catastrophe coverage (see note (7) below).
- (3) Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts. Duration of 168 consecutive hours for a catastrophe occurrence from windstorm, hail, tornado, hurricane and cyclone.
- (4) For the period July 1, 2018 through June 30, 2019, reinstatement premium protection for \$210,000,000 of catastrophe coverage in excess of \$5,000,000.
- (5) For the period July 1, 2019 through June 30, 2020, reinstatement premium protection for \$292,500,000 of catastrophe coverage in excess of \$7,500,000.
- (6) For the period July 1, 2020 through June 30, 2021, reinstatement premium protection for \$70,000,000 of catastrophe coverage in excess of \$10,000,000.
- (7) The personal lines quota share (homeowners, dwelling fire and canine legal liability) expired on December 30, 2020; reinsurance coverage from December 31, 2020 through June 30, 2021 is only for excess of loss and catastrophe reinsurance.

Line of Business	Treaty Year		
	July 1, 2020 to June 30, 2021	July 1, 2019 to June 30, 2020	July 1, 2018 to June 30, 2019
<b>Personal Lines:</b>			
Personal Umbrella			
Quota share treaty:			
Percent ceded - first \$1,000,000 of coverage	90%	90%	90%
Percent ceded - excess of \$1,000,000 of coverage	95%	100%	100%
Risk retained	\$ 300,000	\$ 100,000	\$ 100,000
Total reinsurance coverage per occurrence	\$ 4,700,000	\$ 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, 2021	June 30, 2020	June 30, 2019
<b>Commercial Lines:</b>			
General liability commercial policies			
Quota share treaty	None	None	None
Risk retained	\$ 750,000	\$ 750,000	\$ 750,000
Excess of loss coverage above risk retained	\$ 3,750,000	\$ 3,750,000	\$ 3,750,000
	in excess of	in excess of	in excess of
	\$ 750,000	\$ 750,000	\$ 750,000
Total reinsurance coverage per occurrence	\$ 3,750,000	\$ 3,750,000	\$ 3,750,000
Losses per occurrence subject to reinsurance coverage	\$ 4,500,000	\$ 4,500,000	\$ 4,500,000
<b>Commercial Umbrella</b>			
Quota share treaty:	None	None	
Percent ceded - first \$1,000,000 of coverage			90%
Percent ceded - excess of \$1,000,000 of coverage			100%
Risk retained			\$ 100,000
Total reinsurance coverage per occurrence			\$ 4,900,000
Losses per occurrence subject to quota share reinsurance coverage			\$ 5,000,000
Expiration date			June 30, 2019

**Inflation**

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

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

## **Off-Balance Sheet Arrangements**

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

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

This item is not applicable to smaller reporting companies.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

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

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

None.

## **ITEM 9A. CONTROLS AND PROCEDURES.**

### **Evaluation of Disclosure Controls and Procedures**

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

Except for the steps taken to remediate the material weakness identified below, there have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth fiscal quarter to which this report relates that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### ***Management's Annual Report on Internal Control over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2020.

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

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

### **Remediation**

Management implemented additional controls and continues to monitor the control environment to ensure that the control deficiency contributing to the material weakness was remediated. The remediation actions outlined below are what provided management the ability to deem the material weakness as remediated and they are as follows:

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

### *Inherent Limitation on Effectiveness of Controls*

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

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

### **ITEM 9B. OTHER INFORMATION.**

None.



**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.*****Executive Officers and Directors***

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

<b>Name</b>	<b>Age</b>	<b>Positions and Offices Held</b>
Barry B. Goldstein	67	Chief Executive Officer, President, Executive Chairman of the Board and Director
Meryl S. Golden	61	Chief Operating Officer and Director
Scott Van Pelt	55	Chief Financial Officer and Treasurer
Sarah (Minlei) Chen	38	Chief Actuary, Kingstone Insurance Company
Floyd R. Tupper	66	Secretary and Director
William L. Yankus	61	Director
Carla A. D'Andre	65	Director
Timothy P. McFadden	58	Director

***Barry B. Goldstein***

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

*Meryl S. Golden*

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

*Scott Van Pelt*

Mr. Van Pelt has served as our Chief Financial Officer and Treasurer since February 1, 2021. From February 2019 to February 2021, he was Chief Financial Officer of CHW Group, a home warranty provider. Mr. Van Pelt served as Chief Financial Officer of Citi bank's Life Reinsurance Companies from June 2015 to September 2018. He was Chief Financial Officer of Star and Shield Insurance, a reciprocal insurance company, from January 2013 to April 2014. Mr. Van Pelt received a B.B.A. degree in Accounting from the University of Notre Dame and an M.B.A. in Corporate Finance from Fairleigh Dickinson University.

*Sarah (Minlei) Chen*

Ms. Chen has served as KICO's Chief Actuary since November 2020. From January 2018 to October 2020, she was Actuarial Manager/Senior Pricing Manager and Actuary for Homesite Insurance, a property and casualty insurance company. Ms. Chen served as Actuarial Manager of Plymouth Rock Assurance, an auto and home insurer, from November 2013 to January 2018. Ms. Chen received a B.S. degree in Mathematics from Tsinghua University and an M.S. degree in Applied Mathematics from Brown University.

*Floyd R. Tupper*

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

*William L. Yankus*

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

*Carla A. D'Andre*

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

*Timothy P. McFadden*

Mr. McFadden has more than 29 years of experience in the insurance industry. Since 2012, Mr. McFadden has served as CEO and President of State Farm Indemnity Auto Insurance Company and Senior Vice President of State Farm Insurance, Eastern Market Area. Since 2015, he has also served as CEO and President of State Farm Florida Fire Company. Mr. McFadden served as Senior Vice President of State Farm Insurance Companies, Southern Zone from 2008 to 2011 and Senior Vice President of State Farm Insurance Companies, Southern & Mid Atlantic Zones from 2011 to 2013. Prior to joining the insurance industry, he was a Captain in the United States Army. Mr. McFadden is a member of Stetson University's College of Law Board of Overseers. He formerly served as a member of the Board of State Farm Indemnity Auto Insurance Company, Local Initiatives Support Corporation, American College Ethics Board, State Farm Florida Fire Company, Top Layer Reinsurance and Florida Council of 100. Mr. McFadden received his B.S. degree from the United States Military Academy at West Point and his J.D. from Stetson College of Law. He also completed the General Management Program at Harvard Business School and received his Chartered Life Underwriter Designation from The American College of Financial Services. Mr. McFadden has served as one of our directors and Chair of our Nominating and Corporate Governance Committee since August 2018. We believe that Mr. McFadden's executive level experience in the insurance industry gives him the qualifications and skills to serve as one of our directors.

***Family Relationships***

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

***Term of Office***

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

***Audit Committee***

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

***Audit Committee Financial Expert***

Our Board of Directors has determined that Mr. Tupper qualifies as an "audit committee financial expert," as that term is defined in Item 407(d)(5) of Regulation S-K. Mr. Tupper is an "independent director" based on the definition of independence in Listing Rule 5605(a)(2) of The Nasdaq Stock Market.

**Delinquent Section 16(a) Reports**

Section 16 of the Exchange Act requires that reports of beneficial ownership of common stock and changes in such ownership be filed with the SEC by Section 16 “reporting persons,” including directors, certain officers, holders of more than 10% of the outstanding common stock and certain trusts of which reporting persons are trustees. We are required to disclose in this Annual Report each reporting person whom we know to have failed to file any required reports under Section 16 on a timely basis during the fiscal year ended December 31, 2020. To our knowledge, based solely on a review of copies of Forms 3, 4 and 5 filed with the SEC and written representations that no other reports were required, during the fiscal year ended December 31, 2020, our officers, directors and 10% stockholders complied with all Section 16(a) filing requirements applicable to them, except that Victor Brodsky, formerly our Chief Financial Officer and Treasurer, filed one Form 4 late, reporting two transactions, Richard Swartz, our Chief Accounting Officer, filed his Form 3 late and filed two Forms 4 late, reporting a total of three transactions, and Mr. Goldstein filed a Form 5 late, reporting one gift transaction.

**Code of Ethics; Officer and Director Trading Restrictions Policy**

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

**ITEM 11. EXECUTIVE COMPENSATION.**

**Summary Compensation Table**

The following table sets forth certain information concerning the compensation for the fiscal years ended December 31, 2020 and 2019 for certain executive officers, including our Chief Executive Officer:

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>Stock Awards(5)</u>	<u>Option Awards(5)</u>	<u>Non-Equity Incentive Plan Compensation(8)</u>	<u>All Other Compensation</u>	<u>Total</u>
Barry B. Goldstein (1) Chief Executive Officer; Executive Chairman of the Board	2020	\$ 500,000	\$ -	\$ 1,386,500(6)	\$ -	\$ -	\$ 32,609(9)	\$ 1,919,109
	2019	\$ 636,500	\$ -	\$ -	\$ -	\$ -	\$ 37,520(10)	\$ 674,020
Meryl S. Golden (2) Chief Operating Officer	2020	\$ 500,000	\$ 73,646	\$ -	\$ -	\$ -	\$ 23,400(11)	\$ 597,046
	2019	\$ 134,247	\$ -	\$ -	\$ 95,450(7)	\$ -	\$ 6,277(12)	\$ 235,974
Victor J. Brodsky (3) Chief Financial Officer	2020	\$ 279,975	\$ -	\$ -	\$ 43,451	\$ -	\$ 269,269(13)	\$ 592,785
	2019	\$ 369,666	\$ -	\$ 150,000	\$ -	\$ 34,508	\$ 22,042(14)	\$ 576,217
Benjamin Walden (4) Executive Vice President and Chief Actuary, Kingstone Insurance Company	2020	\$ 258,490	\$ -	\$ -	\$ 31,560	\$ -	\$ 108,847(15)	\$ 398,897
	2019	\$ 339,025	\$ -	\$ 135,000	\$ -	\$ 31,601	\$ 11,200(16)	\$ 516,825

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- (1) Mr. Goldstein has served as our Chief Executive Officer since July 19, 2019 and Executive Chairman of the Board since January 1, 2019. He previously served as Chief Executive Officer from March 2001 through December 31, 2018.
- (2) Ms. Golden has served as our Chief Operating Officer since September 2019.
- (3) Mr. Brodsky served as our Chief Financial officer until September 30, 2020.
- (4) Mr. Walden served as Executive Vice President and Chief Actuary of KICO until September 30, 2020.
- (5) Amounts reflect the aggregate grant date fair value of grants made in each respective fiscal year computed in accordance with stock-based accounting rules (FASB ASC Topic 718-Stock Compensation), excluding the effect of estimated forfeitures. Assumptions used in the calculations of these amounts are included in Note 12 to our Consolidated Financial Statements included in this Annual Report.
- (6) In January 2020, Mr. Goldstein was granted an aggregate of 174,622 shares of restricted common stock under the 2014 Plan. Such grant vested to the extent of 58,208 shares as of the first anniversary of the date of grant and vests to the extent of 58,207 shares as of each of the second anniversary of the date of grant and December 31, 2022. See “Termination of Employment and Change-in-Control Arrangements – Barry B. Goldstein” below for a discussion of certain provisions relating to the restricted stock granted to Mr. Goldstein.
- (7) In September 2019, Ms. Golden was granted a five-year option under the 2014 Plan for the purchase of 50,000 shares of common stock at an exercise price of \$8.72 per share. Such option became exercisable to the extent of 12,500 shares as of each of the date of grant and the first anniversary of the date of grant and will become exercisable to the extent of 12,500 shares as of each of the second and third anniversaries of the date of grant. See “Termination of Employment and Change-in-Control Arrangements – Meryl S. Golden” below for a discussion of certain provisions relating to the options granted to Ms. Golden.
- (8) Represents amounts earned pursuant to the KICO employee bonus plan for 2020 and 2019.
- (9) Represents employer matching contributions under our deferred compensation plan of \$11,909, employer matching contributions under our defined contribution plan of \$8,700 and a car allowance of \$12,000.
- (10) Represents employer matching contributions under our deferred compensation plan of \$17,025, employer matching contributions under our defined contribution plan of \$8,495 and a car allowance of \$12,000.
- (11) Represents employer matching contributions under our defined contribution plan of \$11,400 and a car allowance of \$12,000.
- (12) Represents employer matching contributions under our defined contribution plan of \$3,077 and a car allowance of \$3,200.

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- (13) Represents employer payments pursuant to agreement and general release totaling \$155,969, consulting fees pursuant to agreement totaling \$96,500, matching contributions under our deferred compensation plan of \$1,722, employer matching contributions under our defined compensation plan of \$9,628 and a car allowance of \$5,400.
- (14) Represents employer matching contributions under our deferred compensation plan of \$4,090, employer matching contributions under our defined compensation plan of \$10,752 and a car allowance of \$7,200.
- (15) Represents employer payments pursuant to agreement and general release totaling \$87,729, consulting fees pursuant to agreement totaling \$10,058, and employer matching contributions under our defined compensation plan of \$11,060.
- (16) Represents employer matching contributions under our defined contribution plan.

***Employment Contracts***

*Barry B. Goldstein*

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

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

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

- Agreement in effect as of January 1, 2020

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

Pursuant to the Second Amended and Restated Goldstein Employment Agreement, Mr. Goldstein is entitled to receive an annual base salary of \$500,000 and an annual bonus equal to 6% of our consolidated income from operations before taxes, exclusive of our consolidated net investment income (loss), net unrealized gains (losses) on equity securities and net realized gains (losses) on investments, up to a maximum of 2.5 times his base salary. In addition, pursuant to the Second Amended and Restated Goldstein Employment Agreement, Mr. Goldstein is entitled to receive an LTC payment of between \$945,000 and \$2,835,000 based on a specified minimum increase in our adjusted book value per share (as defined in the Second Amended and Restated Goldstein Employment Agreement) as of December 31, 2022 as compared to December 31, 2019 (with the maximum LTC payment being due if the average per annum increase is at least 14%).

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

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



*Meryl S. Golden*

We and Ms. Golden are parties to an employment agreement dated as of August 27, 2019 (as amended, the “Golden Employment Agreement”). Pursuant to the Golden Employment Agreement, which expires on December 31, 2022, Ms. Golden serves as our Chief Operating Officer and is entitled to receive an annual base salary of \$500,000. In addition, pursuant to the Golden Employment Agreement and the 2014 Plan, in September 2019, Ms. Golden was granted an option to purchase 50,000 shares of common stock which vest to the extent of 12,500 shares on each of the date of grant and each of the first, second and third anniversaries of the date of grant. Further, pursuant to the Golden Employment Agreement and the 2014 Plan, in January 2021, Ms. Golden was granted 30,000 shares of restricted stock and is entitled to receive in January 2022 30,000 shares of restricted stock. Each such grant vests to the extent of 10,000 shares on each of the first, second and third anniversaries of the date of grant.

See “Termination of Employment and Change-in-Control Arrangements – Meryl S. Golden” below for a discussion of the provisions of the Golden Employment Agreement with regard to payments due in the event of the termination of Ms. Golden’s employment.

**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END**

The following table sets forth certain information concerning exercisable and unexercisable stock options and unvested stock grants held by the above Named Executive Officers as of December 31, 2020:

Name	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options	Option Exercise Price	Option Expiration Date	Number of Shares of Stock That Have Not Vested	Market Value of Shares of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares That Have Not Vested
Barry B. Goldstein	-	-	-	-	174,622(1)	\$ 1,161,236	-	\$ -
Meryl S. Golden	25,000	25,000(2)	\$ 8.72	9/25/24	-	\$ -	-	\$ -
Victor J. Brodsky	-	26,064(3)	\$ 7.99	1/27/25	2,327(4) 7,288(5)	\$ 15,475 \$ 48,465	-	\$ - \$ -
Benjamin Walden	7,000	-	\$ 7.85	3/11/21	-	\$ -	-	\$ -
	-	19,207(6)	\$ 7.88	2/7/25				

(1) Such shares vested to the extent of 58,208 shares on January 3, 2021 and will vest to the extent of 58,207 shares on each of January 3, 2022 and 2023.

(2) Such option is exercisable to the extent of 12,500 shares on each of September 25, 2021 and 2022.

- (3) Such option is exercisable on January 27, 2022.
- (4) Such shares vested on February 22, 2021.
- (5) Such shares will vest to the extent of 3,644 shares on each of April 10, 2021 and 2022.
- (6) Such option is exercisable on February 7, 2022.

***Termination of Employment and Change-in-Control Arrangements***

*Barry B. Goldstein*

Pursuant to the Second Amended and Restated Goldstein Employment Agreement, in the event that Mr. Goldstein's employment is terminated by us without cause or he resigns for good reason (each as defined in the Second Amended and Restated Goldstein Employment Agreement), Mr. Goldstein would be entitled to receive his annual base salary, bonus and LTC payment for the remainder of the term. In addition, in the event of Mr. Goldstein's death, his estate would be entitled to receive his annual base salary, accrued bonus and accrued LTC payment through the date of death. Further, in the event that Mr. Goldstein's employment is terminated by us without cause or he resigns for good reason, or, in the event of the termination of Mr. Goldstein's employment due to disability or death, Mr. Goldstein's granted but unvested restricted stock awards will vest.

Mr. Goldstein would be entitled to receive, under certain circumstances, a payment equal to 3.82 times his then annual base salary, the target LTC payment of \$1,890,000 and his accrued bonus in the event of the termination of his employment within eighteen months following a change of control of our company.

*Meryl S. Golden*

Pursuant to the Golden Employment Agreement, in the event that Ms. Golden's employment is terminated by us without cause or she resigns for good reason (each as defined in the Golden Employment Agreement), Ms. Golden would be entitled to receive her annual base salary for the remainder of the term or for twelve months, whichever is sooner. In addition, pursuant to the 2014 Plan, in the event of a termination of employment due to the death or disability of Ms. Golden or following a change of control of our company, the option and stock grants scheduled to vest on the next vesting date following such event shall vest under certain circumstance notwithstanding such event. Further, in the event that Ms. Golden's employment is terminated by us without cause or she resigns for good reason, Ms. Golden's granted but unvested restricted stock awards will vest.

Ms. Golden would be entitled to receive, under certain circumstances, a payment equal to 1.5 times her then annual base salary in the event of the termination of her employment within eighteen months following a change in control of our company.

**Compensation of Directors**

The following table sets forth certain information concerning the compensation of our non-employee directors for the fiscal year ended December 31, 2020:

**DIRECTOR COMPENSATION**

<b>Name</b>	<b>Fees Earned or Paid in Cash</b>	<b>Stock Awards(1)</b>	<b>Option Awards</b>	<b>Total</b>
William L. Yankus	\$ 90,000	\$ 40,000	\$ -	\$ 130,000
Floyd R. Tupper	\$ 85,000	\$ 40,000	\$ -	\$ 125,000
Carla A. D'Andre	\$ 75,000	\$ 40,000	\$ -	\$ 115,000
Timothy P. McFadden	\$ 75,000	\$ 40,000	\$ -	\$ 115,000

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

<b>Name</b>	<b>Unvested Restricted Stock Awards (#)</b>
Floyd R. Tupper	5,704
William L. Yankus	5,704
Carla A. D'Andre	5,704
Timothy P. McFadden	5,303

Effective January 1, 2021, our non-employee directors are entitled to receive annual compensation for their services as directors as follows:

- \$63,000;
- an additional \$25,000 for service as audit committee chair, an additional \$20,000 for service as compensation committee chair, an additional \$10,000 for service as investment committee chair, and an additional \$15,000 for service as chair of other committees; and
- \$40,000 of our common stock determined by the closing stock price on the first business day of the year, which vest on the first anniversary of the grant date.

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

The following table sets forth certain information as of March 17, 2021 regarding the beneficial ownership of our shares of common stock by (i) each person who we believe to be the beneficial owner of more than 5% of our outstanding shares of common stock, (ii) each present director, (iii) each Named Executive Officer and (iv) all of our present executive officers and directors as a group.

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<b>Name and Address of Beneficial Owner</b>	<b>Number of Shares Beneficially Owned</b>	<b>Approximate Percent of Class</b>
Barry B. Goldstein 15 Joys Lane Kingston, New York	715,908(1)	6.6%
Floyd R. Tupper	73,422(2)	*
Victor J. Brodsky	41,223(3)	*
Meryl S. Golden	25,000(4)	*
Benjamin Walden	24,881	*
William L. Yankus	23,791	*
Carla A. D'Andre	21,941(5)	*
Timothy P. McFadden	21,321	*
The TCW Group, Inc. on behalf of the TCW Business Unit 865 South Figueroa Street Los Angeles, California	958,423(6)	8.9%
Michael Doak Griffin Highline Capital LLC 4514 Cole Avenue Dallas, Texas	595,238(7)	5.5%
All executive officers and directors as a group (7 persons)	881,383(1)(2)(4)(5)	8.2%

\* Less than 1%.

- (1) The information regarding Mr. Goldstein is based solely on publicly available information filed with the SEC. Includes (i) 73,168 shares of common stock owned by Mr. Goldstein's wife and (ii) 15,000 shares held in a retirement trust for the benefit of Mr. Goldstein. Mr. Goldstein has sole voting and dispositive power over 642,740 shares of common stock and shared voting and dispositive power over 73,168 shares of common stock. The inclusion of the shares owned by Mr. Goldstein's wife and the retirement trust shall not be construed as an admission that Mr. Goldstein is, for purposes of Section 13(d) or 13(g) of the Exchange Act, the beneficial owner of such shares.
- (2) Includes (i) 32,395 shares owned by Mr. Tupper's wife (ii) 6,675 shares held in a retirement trust for the benefit of Mr. Tupper and (iii) 810 shares held in a retirement trust for the benefit of Mr. Tupper's wife. Mr. Tupper has sole voting and dispositive power over 40,217 shares of common stock and shared voting and dispositive power over 33,205 shares of common stock. The inclusion of the shares owned by Mr. Tupper's wife and the retirement trusts for the benefit of Mr. Tupper and his wife shall not be construed as an admission that Mr. Tupper is, for purposes of Section 13(d) or 13(g) of the Exchange Act, the beneficial owner of such shares.

- (3) Includes 3,645 shares issuable upon the vesting of restricted stock within 60 days.
- (4) Represents shares issuable upon the exercise of options that are exercisable currently.
- (5) Includes (i) 1,400 shares held in a retirement trust for the benefit of Ms. D’Andre and (ii) 10,000 shares held in a retirement trust for the benefit of Ms. D’Andre’s husband. Ms. D’Andre has sole voting and dispositive power over 11,941 shares of common stock and shared voting and dispositive power over 10,000 shares of common stock. The inclusion of the shares owned by the retirement trust for the benefit of Ms. D’Andre’s husband shall not be construed as an admission that Ms. D’Andre is, for purposes of Section 13(d) or 13(g) of the Exchange Act, the beneficial owner of such shares.
- (6) The information regarding The TCW Group, Inc. on behalf of the TCW Business Unit is based solely on Schedule 13G/A filed by such reporting person with the SEC on February 8, 2021 (the “TCW 13G/A”). According to the TCW 13G/A, such reporting person has shared voting and dispositive power over the 958,423 shares of common stock.
- (7) The information regarding Michael Doak (“Doak”) and Griffin Highline Capital LLC (“Griffin”) is based solely on a Schedule 13D filed by such reporting persons with the SEC on February 11, 2021 (the “Doak/Griffin 13D”). According to the Doak/Griffin 13D, each of Doak and Griffin has shared voting and dispositive power over the 595,238 shares of common stock.

***Securities Authorized for Issuance Under Equity Compensation Plans***

The following table sets forth information as of December 31, 2020 with respect to compensation plans (including individual compensation arrangements) under which our common stock is authorized for issuance, aggregated as follows:

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

**EQUITY COMPENSATION PLAN INFORMATION**

	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted average exercise price of outstanding options, warrants and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</b>
Equity compensation plans approved by security holders	119,966	\$ 8.26	843,316(1)
Equity compensation plans not approved by security holders	-	-	-
<b>Total</b>	<b>119,966</b>	<b>\$ 8.26</b>	<b>843,316</b>

- (1) Includes 370,964 shares reserved for issuance pursuant to unvested restricted stock grants.

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

***Director Independence***

*Board of Directors*

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

*Audit Committee*

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

*Nominating and Corporate Governance Committee*

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

*Compensation Committee*

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

***Dale A. Thatcher***

In connection with the separation from employment of Dale Thatcher as our Chief Executive Officer and President in July 2019 (the “Thatcher Separation Date”), we entered into an Agreement and General Release (the “Thatcher Separation Agreement”) with Mr. Thatcher. Pursuant to the Thatcher Separation Agreement, we agreed to provide the following payments and benefits to Mr. Thatcher in full satisfaction of all payments and benefits and other amounts due to him under the terms of his employment agreement with us (and the related KICO employment agreement) upon his separation from employment: (i) \$381,111 (representing the amount of base salary he would have received had he remained employed through March 31, 2020), (ii) \$5,000 in full satisfaction of any bonus payments payable under his employment agreement (and related KICO employment agreement), (iii) continuing group health coverage commencing on the Thatcher Separation Date and ending on March 31, 2020; and (iv) continued vesting of all stock awards previously granted to Mr. Thatcher in his capacity as an executive officer but which were unvested as of the Thatcher Separation Date. Effective January 27, 2021, we entered into an agreement (the “Relinquishment Agreement”) with Mr. Thatcher. Pursuant to the Relinquishment Agreement, Mr. Thatcher relinquished his right to receive 14,077 unissued Shares which vested on January 1, 2021, the right to receive 11,905 Shares which were scheduled to vest on March 14, 2021 and the right to receive 14,076 Shares which were scheduled to vest on January 1, 2022 in full consideration of the payment by the Company of an aggregate of \$280,406.

In addition, we agreed to provide Mr. Thatcher with a severance payment of \$20,000 in consideration for a release. Pursuant to the Thatcher Separation Agreement, Mr. Thatcher agreed that, for a period of three years following the Thatcher Separation Date, he shall not accept any operating executive role with another property and casualty insurance company.

***Victor Brodsky***

In connection with the cessation of employment of Victor Brodsky as our Chief Financial Officer effective September 30, 2020 (the “Brodsky Separation Date”), we entered into an Agreement and General Release (the “Brodsky Separation Agreement”) with Mr. Brodsky. Pursuant to the Brodsky Separation Agreement, we agreed to provide the following payments and benefits to Mr. Brodsky in full satisfaction of all payments and benefits and other amounts due to him upon his cessation of employment: (i) \$155,969 (representing five months of base salary); (ii) continuing group health coverage commencing on October 1, 2020 and ending no later than February 28, 2021; and (iii) continued vesting of all granted but unvested stock and option awards as if Mr. Brodsky had remained in our employ.

***Benjamin Walden***

In connection with the cessation of employment of Benjamin Walden as Executive Vice President and Chief of Actuary of KICO effective September 30, 2020 (the “Walden Separation Date”), we entered into an Agreement and General Release (the “Walden Separation Agreement”) with Mr. Walden. Pursuant to the Walden Separation Agreement, we agreed to provide the following payments and benefits to Mr. Walden in full satisfaction of all payments and benefits and other amounts due to him upon his cessation of employment: (i) an amount equal to the base salary he would have received had he remained employed through November 30, 2020 (with an extension thereof to December 31, 2020 under certain circumstances); (ii) continuing group health coverage commencing on the Walden Separation Date and ending no later than December 31, 2020; and (iii) the grant to Mr. Walden of an option to purchase 19,207 shares of common stock, which option vests two years from the date of grant.

***Other***

The daughter of Barry Goldstein, Amanda Goldstein, is employed as our Investor Relations Director and serves as Vice President of Cosi Agency, Inc., one of our subsidiaries. For the fiscal year ended December 31, 2020, she earned \$172,191 in compensation.

**Related Party Transactions**

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

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

The following is a summary of the fees billed to us by Marcum LLP, our independent auditors, for professional services rendered for the fiscal years ended December 31, 2020 and 2019.

Fee Category	Fiscal 2020 Fees	Fiscal 2019 Fees
Audit Fees(1)	\$ 241,535	\$ 306,940
Tax Fees(2)	\$ -	\$ -
Audit-Related Fees(3)	\$ -	\$ -
All Other Fees(4)	\$ -	\$ -
	\$ 241,535	\$ 306,940

- (1) Audit Fees consist of fees billed for services rendered for the audit of our consolidated financial statements and review of our condensed consolidated financial statements included in our Quarterly Reports on Form 10-Q, services rendered in connection with the filing of Form S-8, and services provided in connection with other statutory or regulatory filings.
- (2) Marcum did not provide any tax services during the fiscal year.
- (3) Marcum did not provide any "Audit-Related" services during the fiscal year.
- (4) Marcum did not provide any other services during the fiscal year.

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



**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
<a href="#">3(a)</a>	<a href="#">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).</a>
<a href="#">3(b)</a>	<a href="#">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).</a>
<a href="#">4(a)</a>	<a href="#">Indenture, dated as of December 19, 2017, between Kingstone Companies, Inc. and Wilmington Trust, National Association (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on December 20, 2017).</a>
<a href="#">4(b)</a>	<a href="#">First Supplemental Indenture, dated as of December 19, 2017, between Kingstone Companies, Inc. and Wilmington Trust, National Association (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on December 20, 2017).</a>
<a href="#">4(c)</a>	<a href="#">Form of Global Note representing \$30,000,000 aggregate principal amount of 5.50% Senior Unsecured Notes due 2022 (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on December 20, 2017).</a>
<a href="#">10(a)</a>	<a href="#">Amended and Restated 2014 Equity Participation Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 1, 2020).</a>
<a href="#">10(b)</a>	<a href="#">Second Amended and Restated Employment Agreement, dated October 14, 2019, by and between Kingstone Companies, Inc. and Barry B. Goldstein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 18, 2019).</a>
<a href="#">10(c)</a>	<a href="#">Stock Grant Agreement, dated as of January 3, 2020, between Kingstone Companies, Inc. and Barry B. Goldstein (157,431 shares) (incorporated by reference to Exhibit 10(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 2019 filed on March 16, 2020).</a>
<a href="#">10(d)</a>	<a href="#">Stock Grant Agreement, dated as of January 3, 2020, between Kingstone Companies, Inc. and Barry B. Goldstein (17,191 shares) (incorporated by reference to Exhibit 10(d) to the Company's Annual Report on Form 10-K for the year ended December 31, 2019 filed on March 16, 2020).</a>
<a href="#">10(e)</a>	Stock Grant Agreement, dated as of January 4, 2020, between Kingstone Companies, Inc. and Barry B. Goldstein (230,769 shares).
<a href="#">10(f)</a>	Stock Grant Agreement, dated as of January 4, 2020, between Kingstone Companies, Inc. and Barry B. Goldstein (21,000 shares).
<a href="#">10(g)</a>	Employment Agreement, dated as of August 27, 2019, by and between Kingstone Companies, Inc. and Meryl S. Golden (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on September 17, 2019).
<a href="#">10(h)</a>	Stock Grant Agreement, dated as of January 4, 2021, between Kingstone Companies, Inc. and Meryl S. Golden.
<a href="#">10(i)</a>	<a href="#">Deferred Compensation Plan, dated as of June 18, 2018 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 20, 2018).</a>
<a href="#">21</a>	<a href="#">Subsidiaries (incorporated by reference to Exhibit 21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 filed on March 16, 2017).</a>
<a href="#">23</a>	<a href="#">Consent of Marcum LLP.</a>
<a href="#">31(a)</a>	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">31(b)</a>	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">32</a>	<a href="#">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.</a>
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.

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

Not applicable.

**SIGNATURES**

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

**KINGSTONE COMPANIES, INC.**

Dated: March 31, 2021

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

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

<b><u>Signature</u></b>	<b><u>Capacity</u></b>	<b><u>Date</u></b>
<u>/s/ Barry B. Goldstein</u> Barry B. Goldstein	Chief Executive Officer, President and Executive Chairman of the Board	March 31, 2021
<u>s/ Scott Van Pelt</u> Scott Van Pelt	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 31, 2021
<u>s/ Richard Swartz</u> Richard Swartz	Chief Accounting Officer (Principal Accounting Officer)	March 31, 2021
<u>/s/ Meryl S. Golden</u> Meryl S. Golden	Chief Operating Officer and Director	March 31, 2021
<u>/s/ Floyd R. Tupper</u> Floyd R. Tupper	Director	March 31, 2021
<u>/s/ William L. Yankus</u> William L. Yankus	Director	March 31, 2021
<u>/s/ Carla A. D'Andre</u> Carla A. D'Andre	Director	March 31, 2021
<u>/s/ Timothy P. McFadden</u> Timothy P. McFadden	Director	March 31, 2021

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Kingstone Companies, Inc. (the “Company”) as of December 31, 2020 and 2019, the related consolidated statements of operations and comprehensive income, stockholders’ equity and cash flows for each of the two years in the period ended December 31, 2020, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting as of December 31, 2020. As part of our 2020 audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### **Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgment. The communication of a critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

### **Evaluation of the Estimate of Loss and Loss Adjustment Expense (“LAE”) Reserves**

As discussed in Notes 2 and 11 to the financial statements, the loss and LAE reserves represent the Company’s estimate of the ultimate liability for unpaid losses. These reserves are based on facts and circumstances then known and include provisions for claims that have been reported and claims that have been incurred but not reported (“IBNR”). The projection of future claim payments and reporting is based on analyses of the Company’s historical experience, supplemented by analyses of industry loss data. At December 31, 2020, the Company’s loss and LAE reserves balance was approximately \$82.8 million.

Due to the significance of the reserves to the Company’s financial statements and the inherent judgment necessary to estimate reserves, we determined that the liability for loss and LAE reserves was a critical audit matter, which required significant auditor judgment and specialized skill and knowledge.

**How the Critical Audit Matter Was Addressed in the Audit**

The primary procedures we performed to address the Company's loss and LAE reserves included, but were not limited to, testing the Company's reserving process, including the actuarial analyses and the determination of the Company's estimate of the loss and LAE reserves as follows:

- Utilizing consulting actuarial professionals with specialized skills and knowledge to analyze the appropriateness of the methodologies utilized by the Company to estimate reserves and to determine the reasonableness of the gross and net loss and LAE reserves recorded by the Company as of December 31, 2020.
- Having consulting actuarial professionals also analyze the approach, methodology, assumptions, and ultimate losses and LAE documented in the actuarial reports prepared by the independent actuarial firm engaged by the Company.
- Analyzing the consistency of the Company's recorded reserves relative to the central estimates of the reserve range determined by the Company's independent actuarial firm at December 31, 2020 in comparison to December 31, 2019.
- Performing hindsight analysis to determine the completeness and accuracy of reserves recorded in the prior year and performing analytical procedures on current year reserves.
- Analyzing the 2020 quarterly actuarial reports prepared by the Company's Chief Actuary.
- Analyzing the 2020 quarterly reports on claims quality assurance prepared by the Company's external claims consultant and the June 30, 2020 and December 31, 2020 reports on unpaid claim liabilities prepared by the independent actuarial firm engaged by the Company.
- Testing the claims handling process, including the establishment of individual case reserves and the settlement of claims.
- Verifying the accuracy and completeness of the data provided to the independent actuarial firm engaged by the Company for the purpose of preparing the actuarial report at December 31, 2020.

/s/ Marcum LLP

Marcum LLP  
Hartford, CT  
March 31, 2021

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

## Consolidated Balance Sheets

	December 31, 2020	December 31, 2019
<b>Assets</b>		
Fixed-maturity securities, held-to-maturity, at amortized cost (fair value of \$8,194,824 at December 31, 2020 and \$4,124,767 at December 31, 2019)	\$ 7,368,815	\$ 3,825,952
Fixed-maturity securities, available-for-sale, at fair value (amortized cost of \$145,045,584 at December 31, 2020 and \$162,202,355 at December 31, 2019)	157,549,272	168,236,181
Equity securities, at fair value (cost of \$32,571,166 at December 31, 2020 and \$22,624,668 at December 31, 2019)	34,413,313	24,661,382
Other investments	3,518,626	2,584,913
Total investments	202,850,026	199,308,428
Cash and cash equivalents	19,463,742	32,391,485
Premiums receivable, net	11,819,639	12,706,411
Reinsurance receivables, net	45,460,729	40,750,538
Deferred policy acquisition costs	20,142,515	20,634,378
Intangible assets	500,000	500,000
Property and equipment, net	8,083,123	7,620,636
Deferred income taxes, net	-	311,052
Other assets	9,262,493	6,979,884
<b>Total assets</b>	<b>\$ 317,582,267</b>	<b>\$ 321,202,812</b>
<b>Liabilities</b>		
Loss and loss adjustment expense reserves	\$ 82,801,228	\$ 80,498,611
Unearned premiums	90,009,272	90,383,238
Advance premiums	2,660,354	3,191,512
Reinsurance balances payable	6,979,735	11,714,724
Deferred ceding commission revenue	93,519	7,735,398
Accounts payable, accrued expenses and other liabilities	8,433,233	9,986,317
Deferred income taxes, net	4,156,913	-
Long-term debt, net	29,647,611	29,471,431
<b>Total liabilities</b>	<b>224,781,865</b>	<b>232,981,231</b>
<b>Commitments and Contingencies (Note 17)</b>	<b>-</b>	<b>-</b>
<b>Stockholders' Equity</b>		
Preferred stock, \$.01 par value; authorized 2,500,000 shares	-	-
Common stock, \$.01 par value; authorized 20,000,000 shares; issued 11,871,307 shares at December 31, 2020 and 11,824,889 at December 31, 2019; outstanding 10,616,815 shares at December 31, 2020 and 10,797,450 shares at December 31, 2019	118,713	118,248
Capital in excess of par	70,769,165	69,133,918
Accumulated other comprehensive income	9,880,062	4,768,870
Retained earnings	15,928,345	16,913,097
	96,696,285	90,934,133
Treasury stock, at cost, 1,254,492 shares at December 31, 2020 and 1,027,439 shares at December 31, 2019	(3,895,883)	(2,712,552)
<b>Total stockholders' equity</b>	<b>92,800,402</b>	<b>88,221,581</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 317,582,267</b>	<b>\$ 321,202,812</b>

See accompanying notes to these consolidated financial statements.

**Consolidated Statements of Operations and Comprehensive Income**

Years ended December 31,

	2020	2019
<b>Revenues</b>		
Net premiums earned	\$ 108,080,629	\$ 127,623,442
Ceding commission revenue	14,202,353	4,650,851
Net investment income	6,505,603	6,869,346
Net gains on investments	1,590,616	4,591,019
Other income	990,550	1,385,308
Total revenues	<u>131,369,751</u>	<u>145,119,966</u>
<b>Expenses</b>		
Loss and loss adjustment expenses	66,431,072	90,182,324
Commission expense	31,828,174	30,093,106
Other underwriting expenses	25,424,779	24,420,208
Other operating expenses	4,282,773	3,834,746
Depreciation and amortization	2,864,583	2,545,946
Interest expense	1,826,180	1,826,180
Total expenses	<u>132,657,561</u>	<u>152,902,510</u>
Loss from operations before taxes	(1,287,810)	(7,782,544)
Income tax benefit	(2,260,200)	(1,816,191)
<b>Net income (loss)</b>	<u>972,390</u>	<u>(5,966,353)</u>
<b>Other comprehensive income, net of tax</b>		
Gross change in unrealized gains on available-for-sale-securities	7,148,205	9,564,647
Reclassification adjustment for (gains) losses included in net income (loss)	(678,343)	122,925
Net change in unrealized gains	6,469,862	9,687,572
Income tax expense related to items of other comprehensive income	(1,358,670)	(2,034,389)
<b>Other comprehensive income, net of tax</b>	<u>5,111,192</u>	<u>7,653,183</u>
<b>Comprehensive income</b>	<u>\$ 6,083,582</u>	<u>\$ 1,686,830</u>
<b>Earnings (loss) per common share:</b>		
Basic	\$ 0.09	\$ (0.55)
Diluted	\$ 0.09	\$ (0.55)
<b>Weighted average common shares outstanding</b>		
Basic	10,721,342	10,773,623
Diluted	10,730,737	10,773,623
<b>Dividends declared and paid per common share</b>	<u>\$ 0.1825</u>	<u>\$ 0.3250</u>

See accompanying notes to these consolidated financial statements.



**Consolidated Statements of Stockholders' Equity**

Years ended December 31, 2020 and 2019

	Preferred Stock		Common Stock		Capital in Excess of Par	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Total
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance, January 1, 2019	-	\$ -	11,775,148	\$ 117,751	\$ 67,763,940	\$ (2,884,313)	\$ 26,380,816	1,027,439	\$(2,712,552)	88,665,642
Stock-based compensation	-	-	-	-	1,501,377	-	-	-	-	1,501,377
Vesting of restricted stock awards	-	-	58,246	580	(580)	-	-	-	-	-
Shares deducted from restricted stock awards for payment of withholding taxes	-	-	(11,505)	(113)	(154,339)	-	-	-	-	(154,452)
Exercise of stock options	-	-	3,000	30	23,520	-	-	-	-	23,550
Dividends	-	-	-	-	-	-	(3,501,366)	-	-	(3,501,366)
Net loss	-	-	-	-	-	-	(5,966,353)	-	-	(5,966,353)
Change in unrealized gains on available- for-sale securities, net of tax	-	-	-	-	-	7,653,183	-	-	-	7,653,183
Balance, December 31, 2019	-	-	11,824,889	118,248	69,133,918	4,768,870	16,913,097	1,027,439	(2,712,552)	88,221,581
Stock-based compensation	-	-	-	-	1,769,649	-	-	-	-	1,769,649
Vesting of restricted stock awards	-	-	67,686	676	(676)	-	-	-	-	-
Shares deducted from restricted stock awards for payment of withholding taxes	-	-	(21,268)	(211)	(133,726)	-	-	-	-	(133,937)
Acquisition of treasury stock	-	-	-	-	-	-	-	227,053	(1,183,331)	(1,183,331)
Dividends	-	-	-	-	-	-	(1,957,142)	-	-	(1,957,142)
Net income	-	-	-	-	-	-	972,390	-	-	972,390
Change in unrealized gains on available- for-sale securities, net of tax	-	-	-	-	-	5,111,192	-	-	-	5,111,192

Balance, December 31, 2020	<u>-</u>	<u>\$ -</u>	<u>11,871,307</u>	<u>\$ 118,713</u>	<u>\$ 70,769,165</u>	<u>\$ 9,880,062</u>	<u>\$ 15,928,345</u>	<u>1,254,492</u>	<u>\$ (3,895,883)</u>	<u>\$ 92,800,402</u>
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*See accompanying notes to these consolidated financial statements.*

**Consolidated Statements of Cash Flows**

Years ended December 31,

	2020	2019
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 972,390	\$ (5,966,353)
Adjustments to reconcile net income (loss) to net cash flows (used in) provided by operating activities:		
Net gains on sale of investments	(832,418)	(28,845)
Net unrealized losses (gains) of equity investments	175,515	(3,832,486)
Net unrealized gains of other investments	(933,713)	(729,688)
Depreciation and amortization	2,864,583	2,545,946
Bad debts	128,585	112,761
Amortization of bond premium, net	614,307	417,119
Amortization of discount and issuance costs on long-term debt	176,180	176,180
Stock-based compensation	1,769,649	1,501,377
Deferred income tax benefit	3,109,295	(1,991,208)
Decrease (increase) in operating assets:		
Premiums receivable, net	758,187	1,142,427
Reinsurance receivables, net	(4,710,191)	(14,383,423)
Deferred policy acquisition costs	491,863	(2,726,641)
Other assets	(2,286,399)	(1,096,732)
(Decrease) increase in operating liabilities:		
Loss and loss adjustment expense reserves	2,302,617	24,301,505
Unearned premiums	(373,966)	11,351,107
Advance premiums	(531,158)	1,083,883
Reinsurance balances payable	(4,734,989)	9,781,348
Deferred ceding commission revenue	(7,641,879)	5,048,721
Accounts payable, accrued expenses and other liabilities	(1,553,084)	3,152,051
<b>Net cash flows (used in) provided by operating activities</b>	<b>(10,234,626)</b>	<b>29,859,049</b>
<b>Cash flows from investing activities:</b>		
Purchase - fixed-maturity securities, held-to-maturity	(4,041,750)	-
Purchase - fixed-maturity securities, available-for-sale	(18,524,314)	(23,881,518)
Purchase - equity securities	(20,967,535)	(9,578,765)
Sale and redemption - fixed-maturity securities, held-to-maturity	500,000	400,000
Sale and maturity - fixed-maturity securities, available-for-sale	35,845,934	16,567,284
Sale - equity securities	11,096,028	5,458,953
Acquisition of fixed assets	(3,327,070)	(3,939,653)
<b>Net cash flows provided by (used in) investing activities</b>	<b>581,293</b>	<b>(14,973,699)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of stock options	-	23,550
Withholding taxes paid on vested restricted stock awards	(133,937)	(154,452)
Purchase of treasury stock	(1,183,331)	-
Dividends paid	(1,957,142)	(3,501,366)
<b>Net cash flows used in financing activities</b>	<b>(3,274,410)</b>	<b>(3,632,268)</b>
(Decrease) increase in cash and cash equivalents	\$ (12,927,743)	\$ 11,253,082
Cash and cash equivalents, beginning of period	32,391,485	21,138,403
<b>Cash and cash equivalents, end of period</b>	<b>\$ 19,463,742</b>	<b>\$ 32,391,485</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for income taxes	\$ 382,437	\$ 388,000
Cash paid for interest	\$ 1,650,000	\$ 1,650,000

See accompanying notes to these consolidated financial statements.

**KINGSTONE COMPANIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2020 AND 2019**

**Note 1 - Nature of Business**

Kingstone Companies, Inc. (referred to herein as "Kingstone" or the "Company"), through its wholly owned subsidiary, Kingstone Insurance Company ("KICO"), underwrites property and casualty insurance exclusively through retail and wholesale agents and brokers. KICO is a licensed insurance company in the States of New York, New Jersey, Rhode Island, Massachusetts, Pennsylvania, Connecticut, Maine and New Hampshire. KICO is currently offering its property and casualty insurance products in New York, New Jersey, Rhode Island, Massachusetts, and Connecticut. Although New Jersey, Rhode Island, Massachusetts and Connecticut continue to be growing markets for the Company, 80.0% and 85.0% of KICO's direct written premiums for the years ended December 31, 2020 and 2019, respectively, came from the New York policies. Kingstone, through its wholly owned subsidiary, Cosi Agency, Inc. ("Cosi"), a multi-state licensed general agency, accesses alternate forms of distribution outside of the independent agent and broker network, through which KICO currently distributes its various products. Kingstone (through Cosi) now has the opportunity to partner with name-brand carriers and access nationwide insurance agencies.

**Note 2 – Summary of Significant Accounting Policies**

Basis of Presentation

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

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

Principles of Consolidation

The consolidated financial statements consist of the financials for Kingstone and its wholly owned subsidiaries: (1) KICO and its wholly owned subsidiaries, CMIC Properties, Inc. ("Properties") and 15 Joys Lane, LLC ("15 Joys Lane"), which together own the land and building from which KICO operates, and (2) Cosi. All significant inter-company account balances and transactions have been eliminated in consolidation.

Revenue Recognition

*Net Premiums Earned*

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

*Ceding Commission Revenue*

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

**KINGSTONE COMPANIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2020 AND 2019**

Loss and Loss Adjustment Expenses (“LAE”) Reserves

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

Reinsurance

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

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

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

Management estimates uncollectible amounts receivable from reinsurers based on an assessment of factors including the creditworthiness of the reinsurers and the adequacy of collateral obtained, where applicable. There was no allowance for uncollectible reinsurance as of December 31, 2020 and 2019. The Company did not expense any uncollectible reinsurance for the years ended December 31, 2020 and 2019. Significant uncertainties are inherent in the assessment of the creditworthiness of reinsurers and estimates of any uncollectible amounts due from reinsurers. Any change in the ability of the Company’s reinsurers to meet their contractual obligations could have a material adverse effect on the consolidated financial statements as well as KICO’s ability to meet its regulatory capital and surplus requirements.

**KINGSTONE COMPANIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2020 AND 2019**

Cash and Cash Equivalents

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

Investments

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

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

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

Investment income is accrued to the balance sheet dates of the consolidated financial statements and includes amortization of premium and accretion of discount on fixed-maturity securities. Interest is recognized when earned, while dividends are recognized when declared. Due and accrued investment income totaled approximately \$1,880,000 and \$1,922,000 as of December 31, 2020 and 2019, respectively, and is included in other assets on the accompanying consolidated balance sheets.

Premiums Receivable

Premiums receivable include balances due currently or in the future and are presented net of an allowance for doubtful accounts of approximately \$390,000 and \$338,000 as of December 31, 2020 and 2019, respectively. The allowance for uncollectible amounts is based on an analysis of amounts receivable giving consideration to historical loss experience and current economic conditions and reflects an amount that, in management’s judgment, is adequate. Uncollectible premiums receivable balances of approximately \$129,000 and \$113,000 were written off for the years ended December 31, 2020 and 2019, respectively.

**KINGSTONE COMPANIES, INC. AND SUBSIDIARIES  
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Deferred Policy Acquisition Costs

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

Intangible Assets

The Company has recorded acquired identifiable intangible assets. The cost of a group of assets acquired in a transaction is allocated to the individual assets including identifiable intangible assets based on their fair values. Identifiable intangible assets with a finite useful life are amortized over the period that the asset is expected to contribute directly or indirectly to the future cash flows of the Company. Intangible assets with an indefinite life are not amortized, but are subject to impairment testing if events or changes in circumstances indicate that it is more likely than not the asset is impaired. All identifiable intangible assets are tested for recoverability whenever events or changes in circumstances indicate that a carrying amount may not be recoverable. No impairment losses from intangible assets were recognized for the years ended December 31, 2020 and 2019.

Property and Equipment

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

The Company reviews its real estate assets used as its headquarters to evaluate the necessity of recording impairment losses for market changes due to declines in the estimated fair value of the property. In evaluating potential impairment, management considers the current estimated fair value compared to the carrying value of the asset. At December 31, 2020 and 2019, the fair value of the real estate assets is estimated to be in excess of the carrying value.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax basis and for operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income (loss) in the period that includes the enactment date. The Company files a consolidated tax return with its subsidiaries. At December 31, 2020 and 2019, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required.

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Assessments

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

Concentration, Credit Risk and Market Risk

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

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

As of December 31, 2020 and 2019, the Company’s cash equivalents were as follows:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Collateralized bank repurchase agreement (1)	\$ 2,228,779	\$ 941,792
Money market funds	17,272,985	12,583,957
<b>Total</b>	<b><u>\$ 19,501,764</u></b>	<b><u>\$ 13,525,749</u></b>

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

At December 31, 2020, the outstanding premiums receivable balance is generally diversified due to the large number of individual insureds comprising the Company’s customer base.

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



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Direct premiums earned from lines of business in excess of 10% of the total subject the Company to concentration risk for the years ended December 31, 2020 and 2019 as follows:

	Years ended December	
	31,	
	2020	2019
Personal Lines	92.9%	83.5%
Premiums earned not subject to concentration (1)	7.1%	16.5%
Total premiums earned	<u>100.0%</u>	<u>100.0%</u>

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

Use of Estimates

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

Earnings per share

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

Advertising Costs

Advertising costs are charged to operations as incurred. Advertising costs are included in other underwriting expenses in the accompanying consolidated statements of operations and comprehensive income and were approximately \$132,000 and \$153,000 for the years ended December 31, 2020 and 2019, respectively.

Stock-based Compensation

Stock-based compensation expense in 2020 and 2019 is the estimated fair value of restricted stock awards and options granted, amortized on a straight-line basis over the requisite service period for the entire portion of the award less an estimate for anticipated forfeitures. The Company uses the "simplified" method to estimate the expected term of the options because the Company's historical share option exercise experience does not provide a reasonable basis upon which to estimate expected term.

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Compensated Absences

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

Leases

The Company records operating leases in accordance with ASU 2016-02 – Leases (Topic 842) (“ASU 2016-02”). Under this ASU, the Company recognized a right-of-use-asset and corresponding liability on the balance sheet for all leases, except for leases covering a period of fewer than 12 months. The liability has been measured at the present value of the future minimum lease payments taking into account renewal options if applicable plus initial incremental direct costs such as commissions. The minimum payments are discounted using the Company's incremental borrowing rate. The Company adopted ASU 2016-02 effective January 1, 2019 using the cumulative effect adjustment transition method, which applies the provision of the standard at the effective date without adjusting the comparative periods presented. The adoption of the updated guidance resulted in the Company recognizing a right-of-use asset of \$855,000 as part of other assets and a lease liability of \$855,000 as part of accounts payable, accrued expenses and other liabilities in the consolidated balance sheet. The right-of-use asset is amortized as rent expense on a straight-line basis.

Comprehensive Income

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

Accounting Changes

The Company has determined that it was not subject to any new accounting pronouncements that became effective during the year ended December 31, 2020.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (the “FASB”) issued ASU 2016-13 - Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). The revised accounting guidance requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses of available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective for the Company on January 1, 2023. The Company is currently evaluating the effect the updated guidance will have on its consolidated financial statements.

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

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

**Note 3 - Investments**

Fixed-Maturity Securities

The amortized cost, estimated fair value, and unrealized gains and losses on investments in fixed-maturity securities classified as available-for-sale as of December 31, 2020 and 2019 are summarized as follows:

Category	December 31, 2020					
	Cost or	Gross	Gross Unrealized Losses		Estimated	Net
	Amortized	Unrealized	Less than	More than	Fair	Unrealized
	Cost	Gains	12	12	Value	Gains
			Months	Months		
<b>Fixed-Maturity Securities:</b>						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 3,020,710	\$ 29,190	\$ -	\$ -	\$ 3,049,900	\$ 29,190
Political subdivisions of States, Territories and Possessions	5,287,561	355,541	-	-	5,643,102	355,541
Corporate and other bonds						
Industrial and miscellaneous	108,573,422	11,634,123	(13,216)	-	120,194,329	11,620,907
Residential mortgage and other asset backed securities (1)	28,163,891	617,368	(7,371)	(111,947)	\$ 28,661,941	498,050
<b>Total</b>	<u>\$ 145,045,584</u>	<u>\$ 12,636,222</u>	<u>\$ (20,587)</u>	<u>\$ (111,947)</u>	<u>\$ 157,549,272</u>	<u>\$ 12,503,688</u>

(1) KICO placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its membership in the Federal Home Loan Bank of New York ("FHLBNY") (See Note 9). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from the FHLBNY credit line. As of December 31, 2020, the estimated fair value of the eligible investments was approximately \$11,391,000. KICO will retain all rights regarding all securities if pledged as collateral. As of December 31, 2020, there was no outstanding balance on the FHLBNY credit line.

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

- (1) KICO placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its membership in the Federal Home Loan Bank of New York ("FHLBNY") (See Note 9). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from the FHLBNY credit line. As of December 31, 2019, the estimated fair value of the eligible investments was approximately \$7,284,000. KICO will retain all rights regarding all securities if pledged as collateral. As of December 31, 2019, there was no outstanding balance on the FHLBNY credit line.

A summary of the amortized cost and estimated fair value of the Company's investments in available-for-sale fixed-maturity securities by contractual maturity as of December 31, 2020 and 2019 is shown below:

Remaining Time to Maturity	December 31, 2020		December 31, 2019	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Less than one year	\$ 8,559,005	\$ 8,668,064	\$ 11,986,401	\$ 12,025,804
One to five years	44,137,567	47,745,430	49,715,422	51,000,025
Five to ten years	55,508,712	63,159,775	69,850,104	74,410,275
More than 10 years	8,676,409	9,314,062	4,511,795	4,568,847
Residential mortgage and other asset backed securities	28,163,891	28,661,941	26,138,633	26,231,230
<b>Total</b>	<u>\$ 145,045,584</u>	<u>\$ 157,549,272</u>	<u>\$ 162,202,355</u>	<u>\$ 168,236,181</u>

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

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Equity Securities

The cost and estimated fair value of, and gross unrealized gains and losses on, investments in equity securities as of December 31, 2020 and 2019 are as follows:

Category	December 31, 2020			
	Cost	Gross Gains	Gross Losses	Estimated Fair Value
<b>Equity Securities:</b>				
Preferred stocks	\$ 18,097,942	\$ 853,277	\$ (426,942)	\$ 18,524,277
Common stocks, mutual funds, and exchange traded funds	14,473,224	1,820,512	(404,700)	15,889,036
Total	<u>\$ 32,571,166</u>	<u>\$ 2,673,789</u>	<u>\$ (831,642)</u>	<u>\$ 34,413,313</u>

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

Other Investments

The cost and estimated fair value of, and gross unrealized gains on, the Company's other investments as of December 31, 2020 and 2019 are as follows:

Category	December 31, 2020			December 31, 2019		
	Cost	Gross Gains	Estimated Fair Value	Cost	Gross Gains	Estimated Fair Value
<b>Other Investments:</b>						
Hedge fund	\$ 1,999,381	\$ 1,519,245	\$ 3,518,626	\$ 1,999,381	\$ 585,532	\$ 2,584,913
Total	<u>\$ 1,999,381</u>	<u>\$ 1,519,245</u>	<u>\$ 3,518,626</u>	<u>\$ 1,999,381</u>	<u>\$ 585,532</u>	<u>\$ 2,584,913</u>

**KINGSTONE COMPANIES, INC. AND SUBSIDIARIES**  
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Held-to-Maturity Securities

The cost or amortized cost and estimated fair value of, and unrealized gross gains and losses on, investments in held-to-maturity fixed-maturity securities as of December 31, 2020 and 2019 are summarized as follows:

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

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

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

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A summary of the amortized cost and the estimated fair value of the Company's investments in held-to-maturity securities by contractual maturity as of December 31, 2020 and 2019 is shown below:

Remaining Time to Maturity	December 31, 2020		December 31, 2019	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Less than one year	\$ -	\$ -	\$ 500,000	\$ 499,165
One to five years	2,598,193	2,777,936	2,099,268	2,215,640
Five to ten years	1,502,603	1,727,316	620,134	655,923
More than 10 years	3,268,019	3,689,572	606,550	754,039
<b>Total</b>	<b>\$ 7,368,815</b>	<b>\$ 8,194,824</b>	<b>\$ 3,825,952</b>	<b>\$ 4,124,767</b>

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

Investment Income

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

	Years ended December 31,	
	2020	2019
<b>Income:</b>		
Fixed-maturity securities	\$ 5,533,047	\$ 5,943,889
Equity securities	1,159,507	930,004
Cash and cash equivalents	91,603	337,602
<b>Total</b>	<b>6,784,157</b>	<b>7,211,495</b>
<b>Expenses:</b>		
Investment expenses	278,554	342,149
<b>Net investment income</b>	<b>\$ 6,505,603</b>	<b>\$ 6,869,346</b>

Proceeds from the sale and redemption of fixed-maturity securities held-to-maturity were \$500,000 and \$400,000 for the years ended December 31, 2020 and 2019, respectively.

Proceeds from the sale and maturity of fixed-maturity securities available-for-sale were \$35,845,934 and \$16,567,284 for the years ended December 31, 2020 and 2019, respectively.

Proceeds from the sale of equity securities were \$11,096,028 and \$5,458,953 for the years ended December 31, 2020 and 2019, respectively.

**KINGSTONE COMPANIES, INC. AND SUBSIDIARIES**  
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The Company's net gains (losses) on investments are summarized as follows:

	Years ended December 31,	
	2020	2019
<b>Realized Gains (Losses)</b>		
<b>Fixed-maturity securities:</b>		
Gross realized gains	\$ 1,108,159	\$ 11,608
Gross realized losses	(327,890)	(134,533)
	<u>780,269</u>	<u>(122,925)</u>
<b>Equity securities:</b>		
Gross realized gains	832,394	316,924
Gross realized losses	(780,245)	(165,154)
	<u>52,149</u>	<u>151,770</u>
Net realized gains	<u>832,418</u>	<u>28,845</u>
<b>Unrealized Gains (Losses)</b>		
<b>Equity Securities:</b>		
Gross gains	41,517	3,832,486
Gross losses	(217,032)	-
	<u>(175,515)</u>	<u>3,832,486</u>
<b>Other Investments:</b>		
Gross gains	933,713	729,688
Gross losses	-	-
	<u>933,713</u>	<u>729,688</u>
Net unrealized gains	<u>758,198</u>	<u>4,562,174</u>
Net gains on investments	<u>\$ 1,590,616</u>	<u>\$ 4,591,019</u>



**KINGSTONE COMPANIES, INC. AND SUBSIDIARIES  
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Impairment Review

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

OTTI losses are recorded in the consolidated statements of operations 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 December 31, 2020 and December 31, 2019, there were 16 and 39 fixed-maturity securities, respectively, that accounted for the gross unrealized losses. The Company determined that none of the unrealized losses were deemed to be OTTI for its portfolio of investments for the years ended December 31, 2020 and 2019. Significant factors influencing the Company’s determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security’s cost, the nature of the investment and management’s intent and ability to hold the investment for a period of time sufficient to allow for an anticipated recovery of estimated fair value to the Company’s cost basis.

**KINGSTONE COMPANIES, INC. AND SUBSIDIARIES**  
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The Company held available-for-sale securities with unrealized losses representing declines that were considered temporary at December 31, 2020 and 2019 as follows:

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

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

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**Note 4 - Fair Value Measurements**

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

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

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

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

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

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

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The following table presents information about the Company's investments that are measured at fair value on a recurring basis at December 31, 2020 and 2019 indicating the fair value hierarchy of the valuation inputs the Company utilized to determine such fair value:

	<b>December 31, 2020</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Fixed-maturity securities available-for-sale</b>				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 3,049,900	\$ -	\$ -	\$ 3,049,900
Political subdivisions of States, Territories and Possessions	-	5,643,102	-	5,643,102
Corporate and other bonds industrial and miscellaneous	118,123,890	2,070,439	-	120,194,329
Residential mortgage and other asset backed securities	-	28,661,941	-	28,661,941
Total fixed maturities	121,173,790	36,375,482	-	157,549,272
<b>Equity securities</b>	34,413,313	-	-	34,413,313
Total investments	<u>\$ 155,587,103</u>	<u>\$ 36,375,482</u>	<u>\$ -</u>	<u>\$ 191,962,585</u>

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

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The following table sets forth the Company’s investment in a hedge fund measured at Net Asset Value (“NAV”) per share as of December 31, 2020 and 2019. 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:

<u>Category</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<b>Other Investments:</b>		
Hedge fund	\$ 3,518,626	\$ 2,584,913
Total	<u>\$ 3,518,626</u>	<u>\$ 2,584,913</u>

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

The estimated fair value and the level of the fair value hierarchy of the Company’s long-term debt as of December 31, 2020 and 2019, which is not measured at fair value is as follows:

	<b>December 31, 2020</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Long-term debt</b>				
Senior Notes due 2022	\$ -	\$ 27,272,727	\$ -	\$ 27,272,727

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

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

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

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

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

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

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

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

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

The estimated fair values of the Company's financial instruments and real estate as of December 31, 2020 and 2019 are as follows:

	December 31, 2020		December 31, 2019	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Fixed-maturity securities-held-to maturity	\$ 7,368,815	\$ 8,194,824	\$ 3,825,952	\$ 4,124,767
Cash and cash equivalents	\$ 19,463,742	\$ 19,463,742	\$ 32,391,485	\$ 32,391,485
Premiums receivable, net	\$ 14,020,716	\$ 14,020,716	\$ 12,706,411	\$ 12,706,411
Reinsurance receivables, net	\$ 45,460,729	\$ 45,460,729	\$ 40,750,538	\$ 40,750,538
Real estate, net of accumulated depreciation	\$ 2,219,999	\$ 2,705,000	\$ 2,292,743	\$ 2,705,000
Reinsurance balances payable	\$ 6,979,735	\$ 6,979,735	\$ 11,714,724	\$ 11,714,724

**Note 6 - Intangible Assets**

Intangible assets consist of finite and indefinite life assets. Finite life intangible assets include customer and producer relationships and other identifiable intangibles. KICO's insurance company license is considered an indefinite life intangible asset subject to annual impairment testing. All identified intangible assets of finite useful life were fully amortized as of December 31, 2020 and 2019.

The components of intangible assets and their useful lives, accumulated amortization, and net carrying value as of December 31, 2020 and 2019 are summarized as follows:

	Useful Life (in yrs)	December 31, 2020			December 31, 2019		
		Gross Carrying Value	Accumulated Amortization	Net Carrying Amount	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount
Insurance license	-	\$ 500,000	\$ -	\$ 500,000	\$ 500,000	\$ -	\$ 500,000
Customer relationships	10	3,400,000	3,400,000	-	3,400,000	3,400,000	-
Other identifiable intangibles	7	950,000	950,000	-	950,000	950,000	-
<b>Total</b>		<b>\$4,850,000</b>	<b>\$ 4,350,000</b>	<b>\$ 500,000</b>	<b>\$4,850,000</b>	<b>\$ 4,350,000</b>	<b>\$ 500,000</b>

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Intangible asset impairment testing and amortization

The Company performs an analysis annually as of December 31, or sooner if there are indicators that the asset may be impaired, to identify potential impairment of intangible assets and measures the amount of any impairment loss that may need to be recognized. Intangible asset impairment testing requires an evaluation of the estimated fair value of each identified intangible asset to its carrying value. An impairment charge would be recorded if the estimated fair value is less than the carrying amount of the intangible asset. No impairments have been identified for the years ended December 31, 2020 and 2019.

The Company recorded amortization expense related to intangible assets of \$-0- and \$170,000, for the years ended December 31, 2020 and 2019, respectively.

**Note 7 - Reinsurance**

Through June 30, 2019, the Company's quota share reinsurance treaties were on a July 1 through June 30 fiscal year basis. The Company's quota share reinsurance treaties in effect during the year ended December 31, 2019 for its personal lines business were covered through June 30, 2019 under a treaty covering a two-year period from July 1, 2017 through June 30, 2019 ("2017/2019 Treaty"). The treaty in effect during the year ended December 31, 2019 was covered through June 30, 2019 under the July 1, 2018 through June 30, 2019 treaty year ("2018/2019 Treaty Year"). Effective July 1, 2019, the 2017/2019 Treaty and the commercial umbrella treaty expired on a run-off basis; these treaties were not renewed. Effective December 15, 2019, the Company entered into a quota share reinsurance treaty for its personal lines business, which primarily consists of homeowners' policies, covering the period from December 15, 2019 through December 30, 2020 ("2019/2020 Treaty"). Effective December 31, 2020 the 2019/2020 Treaty expired on a cut off basis; this treaty was not renewed. The Company entered into new excess of loss and catastrophe reinsurance treaties effective July 1, 2020. Material terms for reinsurance treaties in effect for the treaty years shown below are as follows:



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

<b>Line of Business</b>	<b>Treaty Year</b>				
	<b>December 31, 2020 to June 30, 2021</b>	<b>July 1, 2020 to December 30, 2020</b>	<b>December 15, 2019 to June 30, 2020</b>	<b>July 1, 2019 to December 14, 2019</b>	<b>July 1, 2018 to June 30, 2019</b>
<b>Personal Lines:</b>					
Homeowners, dwelling fire and and canine legal liability Quota share treaty:					
Risk retained on initial \$1,000,000 of losses (7)	1,000,000	\$ 750,000	\$ 750,000	\$ 1,000,000	\$ 900,000
Losses per occurrence subject to quota share					
reinsurance coverage	None (7)	\$ 1,000,000	\$ 1,000,000	None	\$ 1,000,000
Expiration date	NA (7)	December 30, 2020	December 30, 2020	NA	June 30, 2019
Excess of loss coverage and facultative facility coverage (1)	\$ 8,000,000	\$ 8,000,000	\$ 9,000,000	\$ 9,000,000	\$ 9,000,000
	in excess of	in excess of	in excess of	in excess of	in excess of
	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Total reinsurance coverage per occurrence (7)	\$ 8,000,000	\$ 8,250,000	\$ 9,250,000	\$ 9,000,000	\$ 9,100,000
Losses per occurrence subject to reinsurance coverage	\$ 8,000,000	\$ 9,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000
Expiration date (7)	June 30, 2021	June 30, 2021	June 30, 2020	June 30, 2020	June 30, 2019

<b>Catastrophe Reinsurance:</b>					
Initial loss subject to personal lines quota share treaty	None (7)	\$ 7,500,000	\$ 7,500,000	None	\$ 5,000,000
Risk retained per catastrophe occurrence (2) (7)	\$ 10,000,000	\$ 8,125,000	\$ 5,625,000	\$ 7,500,000	\$ 4,500,000
Catastrophe loss coverage in excess of quota share coverage (3) (7)	\$ 475,000,000	\$ 475,000,000	\$ 602,500,000	\$ 602,500,000	\$ 445,000,000
Reinstatement premium protection (4) (5) (6)	Yes	Yes	Yes	Yes	Yes

- (1) For personal lines, includes the addition of an automatic facultative facility allowing KICO to obtain homeowners single risk coverage up to \$10,000,000 in total insured value, which covers direct losses from \$3,500,000 to \$10,000,000.
- (2) Plus losses in excess of catastrophe coverage. For the period July 1, 2020 through December 30, 2020, there was no reinsurance coverage for the \$2,500,000 gap between quota share limit of \$7,500,000 and first \$10,000,000 layer of catastrophe coverage (see note (7) below).
- (3) Catastrophe coverage is limited on an annual basis to two times the per occurrence amounts. Duration of 168 consecutive hours for a catastrophe occurrence from windstorm, hail, tornado, hurricane and cyclone.
- (4) For the period July 1, 2018 through June 30, 2019, reinstatement premium protection for \$210,000,000 of catastrophe coverage in excess of \$5,000,000.
- (5) For the period July 1, 2019 through June 30, 2020, reinstatement premium protection for \$292,500,000 of catastrophe coverage in excess of \$7,500,000.

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

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<b>Line of Business</b>	<b>Treaty Year</b>		
	<b>July 1, 2020 to June 30, 2021</b>	<b>July 1, 2019 to June 30, 2020</b>	<b>July 1, 2018 to June 30, 2019</b>
<b>Personal Lines:</b>			
Personal Umbrella			
Quota share treaty:			
Percent ceded - first \$1,000,000 of coverage	90%	90%	90%
Percent ceded - excess of \$1,000,000 of coverage	95%	100%	100%
Risk retained	\$ 300,000	\$ 100,000	\$ 100,000
Total reinsurance coverage per occurrence	\$ 4,700,000	\$ 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, 2021	June 30, 2020	June 30, 2019
<b>Commercial Lines:</b>			
General liability commercial policies			
Quota share treaty	None	None	None
Risk retained	\$ 750,000	\$ 750,000	\$ 750,000
Excess of loss coverage above risk retained	\$ 3,750,000	\$ 3,750,000	\$ 3,750,000
	in excess of	in excess of	in excess of
	\$ 750,000	\$ 750,000	\$ 750,000
Total reinsurance coverage per occurrence	\$ 3,750,000	\$ 3,750,000	\$ 3,750,000
Losses per occurrence subject to reinsurance coverage	\$ 4,500,000	\$ 4,500,000	\$ 4,500,000
Commercial Umbrella			
Quota share treaty:	None	None	
Percent ceded - first \$1,000,000 of coverage			90%
Percent ceded - excess of \$1,000,000 of coverage			100%
Risk retained			\$ 100,000
Total reinsurance coverage per occurrence			\$ 4,900,000
Losses per occurrence subject to quota share reinsurance coverage			\$ 5,000,000
Expiration date			June 30, 2019

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

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Approximate reinsurance recoverables on unpaid and paid losses by reinsurer at December 31, 2020 and 2019 are as follows:

(\$ in thousands)	Unpaid Losses	Paid Losses	Total	Security
<b>December 31, 2020</b>				
Cavello Bay Reinsurance Limited (1)	\$ 2,850	\$ 3,405	\$ 6,255	\$ 10,086(2)
Swiss Reinsurance America Corporation	7,778	5,840	13,618	-
Hanover Rueck SE	4,909	2,897	7,806	-
Allied World Assurance Company	2,019	1,761	3,780	-
Others	2,598	884	3,482	732(3)
Total	<u>\$ 20,154</u>	<u>\$ 14,787</u>	<u>\$ 34,941</u>	<u>\$ 10,818</u>
<b>December 31, 2019</b>				
Cavello Bay Reinsurance Limited (1)	\$ 4,036	\$ 2,427	\$ 6,463	\$ 5,995(2)
Swiss Reinsurance America Corporation	4,418	1,336	5,754	-
Hanover Rueck SE	3,156	522	3,678	-
SCOR Reinsurance Company	394	458	852	-
Allied World Assurance Company	760	170	930	-
Others	2,964	471	3,435	-
Total	<u>\$ 15,728</u>	<u>\$ 5,385</u>	<u>\$ 21,112</u>	<u>\$ 5,995</u>

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

- (1) On December 27, 2018, Enstar Group Limited announced that one of its wholly owned subsidiaries, Cavello Bay Reinsurance Limited, acquired Maiden Reinsurance North America, Inc.
- (2) Secured pursuant to collateralized trust agreements.
- (3) Represents \$732,000 guaranteed by irrevocable letters of credit.

Assets held in the trusts referred to in footnote (2) in the table above are not included in the Company's invested assets and investment income earned on these assets is credited to the reinsurers respectively. In addition to reinsurance recoverables on unpaid and paid losses, reinsurance receivables in the accompanying consolidated balance sheets as of December 31, 2020 and 2019 include unearned ceded premiums of approximately \$282,000 and \$19,638,000, respectively.

Ceding Commission Revenue

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

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The Company's estimated ultimate treaty year loss ratios (the "Loss Ratio(s)") for treaties in effect during the year ended December 31, 2020 are attributable to contracts under the 2019/2020 Treaty. The Loss Ratios for treaties in effect for the year ended December 31, 2019 are attributable to contracts under the 2019/2020 Treaty and 2017/2019 Treaty for the 2018/2019 Treaty Year, which expired on June 30, 2019 and was not renewed.

Under the 2019/2020 Treaty and the 2017/2019 Treaty for the 2018/2019 Treaty Year, the Company received an upfront fixed provisional ceding commission rate that is not subject to a sliding scale contingent adjustment. In addition to the treaties that were in effect during the years ended December 31, 2020 and 2019, 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:

	<b>Years ended</b>	
	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Provisional ceding commissions earned	\$ 14,119,180	\$ 5,446,370
Contingent ceding commissions earned	83,173	(795,519)
	<u>\$ 14,202,353</u>	<u>\$ 4,650,851</u>

Provisional ceding commissions are settled monthly. Balances due from reinsurers for contingent ceding commissions on quota share treaties are settled annually based on the Loss Ratio of each treaty year that ends on June 30. As discussed above, the Loss Ratios from prior years' treaties are subject to change as incurred losses from those periods develop, resulting in an increase or decrease in the commission rate and contingent ceding commissions earned. As of December 31, 2020 and 2019, net contingent ceding commissions payable to reinsurers under all treaties was approximately \$2,604,000 and \$2,886,000, respectively, which is recorded in reinsurance balances payable on the accompanying consolidated balance sheets.

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

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

	<b>Years ended</b>	
	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Net deferred policy acquisition costs, net of ceding commission revenue, beginning of year	\$ 12,898,980	\$ 15,221,060
Cost incurred and deferred:		
Commissions and brokerage	32,279,848	32,541,094
Other underwriting and policy acquisition costs	8,526,003	9,423,340
Ceding commission revenue	(13,680,042)	(3,754,889)
Net deferred policy acquisition costs	27,125,809	38,209,545
Return of deferred ceding commission revenue		
due to reduction of quota share	7,202,741	-
Additional deferred ceding commission revenue		
due to inception of quota share	-	(6,740,202)
Amortization	(27,178,534)	(33,791,423)
	<u>7,150,016</u>	<u>(2,322,080)</u>
Net deferred policy acquisition costs, net of ceding commission revenue, end of year	<u>\$ 20,048,996</u>	<u>\$ 12,898,980</u>

Deferred policy acquisition costs and deferred ceding commission revenue as of December 31, 2020 and 2019 are as follows:

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Deferred policy acquisition costs	\$ 20,142,515	\$ 20,634,378
Deferred ceding commission revenue	(93,519)	(7,735,398)
Balance at end of period	<u>\$ 20,048,996</u>	<u>\$ 12,898,980</u>

**Note 9 – Debt**

Federal Home Loan Bank

In July 2017, KICO became a member of, and invested in, the Federal Home Loan Bank of New York (“FHLBNY”). The aggregate fair value of the investment in dividend bearing common stock was \$11,200 and \$15,180 as of December 31, 2020 and 2019, respectively. FHLBNY members have access to a variety of flexible, low cost funding through FHLBNY’s credit products, enabling members to customize advances, which are to be fully collateralized. Eligible collateral to pledge to FHLBNY includes residential and commercial mortgage backed securities, along with U.S. Treasury and agency securities. See Note 3 – Investments for eligible collateral held in a designated custodian account available for future advances. Advances are limited to 5% of KICO’s net admitted assets as of the previous quarter and are due and payable within one year of borrowing. The maximum allowable advance as of December 31, 2020 was approximately \$12,066,000. Advances are limited to 85% of the amount of available collateral, which was approximately \$9,682,000 as of December 31, 2020. There were no borrowings under this facility during the years ended December 31, 2020 and 2019.

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Long-term Debt

On December 19, 2017, the Company issued \$30 million of its 5.50% Senior Unsecured Notes due December 30, 2022 (the “Notes”) in an underwritten public offering. Interest is payable semi-annually in arrears on June 30 and December 30 of each year, which began on June 30, 2018 at the rate of 5.50% per annum. The net proceeds of the issuance were \$29,121,630, net of discount of \$163,200 and transaction costs of \$715,170, for an effective yield of 5.67% per annum. The balance of long-term debt as of December 31, 2020 and 2019 is as follows:

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
5.50% Senior Unsecured Notes	\$ 30,000,000	\$ 30,000,000
Discount	(64,883)	(97,325)
Issuance costs	(287,506)	(431,244)
Long-term debt, net	<u>\$ 29,647,611</u>	<u>\$ 29,471,431</u>

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

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

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**Note 10 - Property and Equipment**

The components of property and equipment are summarized as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
<b>December 31, 2020</b>			
Building	\$ 2,344,188	\$ (760,302)	\$ 1,583,886
Land	652,437	-	652,437
Furniture office equipment	802,325	(715,819)	86,506
Leasehold improvements	18,996	(2,712)	16,284
Computer equipment and software	14,187,456	(8,491,325)	5,696,131
Automobile	99,352	(51,473)	47,879
Total	<u>\$ 18,104,754</u>	<u>\$ (10,021,631)</u>	<u>\$ 8,083,123</u>
<b>December 31, 2019</b>			
Building	\$ 2,344,188	\$ (663,200)	\$ 1,680,988
Land	652,437	-	652,437
Furniture office equipment	802,325	(656,204)	146,121
Leasehold improvements	18,996	(226)	18,770
Computer equipment and software	10,861,385	(5,813,308)	5,048,077
Automobile	99,352	(25,109)	74,243
Total	<u>\$ 14,778,683</u>	<u>\$ (7,158,047)</u>	<u>\$ 7,620,636</u>

Depreciation expense for the years ended December 31, 2020 and 2019 was \$2,864,583 and \$2,375,946, respectively.

**Note 11 - Property and Casualty Insurance Activity**

Premiums written, ceded and earned are as follows:

	<u>Direct</u>	<u>Assumed</u>	<u>Ceded</u>	<u>Net</u>
<b>Year ended December 31, 2020</b>				
Premiums written	\$169,317,904	\$ -	\$ (42,255,383)	\$127,062,521
Change in unearned premiums	373,966	-	(19,355,858)	(18,981,892)
Premiums earned	<u>\$169,691,870</u>	<u>\$ -</u>	<u>\$ (61,611,241)</u>	<u>\$108,080,629</u>
<b>Year ended December 31, 2019</b>				
Premiums written	\$171,214,091	\$ 939	\$ (45,635,899)	\$125,579,131
Change in unearned premiums	(11,350,864)	(243)	13,395,418	2,044,311
Premiums earned	<u>\$159,863,227</u>	<u>\$ 696</u>	<u>\$ (32,240,481)</u>	<u>\$127,623,442</u>

Premium receipts in advance of the policy effective date are recorded as advance premiums. The balance of advance premiums as of December 31, 2020 and December 31, 2019 was \$2,660,354 and \$3,191,512, respectively.



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The components of the liability for loss and LAE expenses and related reinsurance receivables as of December 31, 2020 and 2019 are as follows:

	<b>Gross Liability</b>	<b>Reinsurance Receivables</b>
<b>December 31, 2020</b>		
Case-basis reserves	\$ 47,657,198	\$ 15,432,347
Loss adjustment expenses	13,610,284	1,882,419
IBNR reserves	21,533,746	2,839,486
Recoverable on unpaid losses		20,154,252
Recoverable on paid losses	-	14,787,037
Total loss and loss adjustment expenses	<u>\$ 82,801,228</u>	34,941,289
Unearned premiums		282,131
Receivables - reinsurance contracts		10,237,309
Total reinsurance receivables		<u>\$ 45,460,729</u>
<b>December 31, 2019</b>		
Case-basis reserves	\$ 48,688,643	\$ 12,894,469
Loss adjustment expenses	12,606,236	1,416,686
IBNR reserves	19,203,732	1,417,070
Recoverable on unpaid losses		15,728,225
Recoverable on paid losses	-	5,384,325
Total loss and loss adjustment expenses	<u>\$ 80,498,611</u>	21,112,550
Unearned premiums		19,637,988
Total reinsurance receivables		<u>\$ 40,750,538</u>

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

	<b>Years ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Balance at beginning of period	\$ 80,498,611	\$ 56,197,106
Less reinsurance recoverables	(15,728,224)	(15,671,247)
Net balance, beginning of period	<u>64,770,387</u>	<u>40,525,859</u>
Incurred related to:		
Current year	66,389,907	79,044,301
Prior years	41,165	11,138,023
Total incurred	<u>66,431,072</u>	<u>90,182,324</u>
Paid related to:		
Current year	41,100,578	42,861,207
Prior years	27,453,904	23,076,589
Total paid	<u>68,554,482</u>	<u>65,937,796</u>
Net balance at end of period	62,646,977	64,770,387
Add reinsurance recoverables	20,154,251	15,728,224
Balance at end of period	<u>\$ 82,801,228</u>	<u>\$ 80,498,611</u>

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Incurred losses and LAE are net of reinsurance recoveries under reinsurance contracts of \$27,951,005 and \$12,769,015 for the years ended December 31, 2020 and 2019, respectively.

Prior year incurred loss and LAE development is based upon estimates by line of business and accident year. Prior year loss and LAE development incurred during the years ended December 31, 2020 and 2019 was \$41,165 unfavorable and \$11,138,023 unfavorable, respectively. During the year ended December 31, 2019, the Company increased case reserves for certain older open liability claims, which primarily affected the ultimate loss projections for commercial lines business. This was in response to management's detailed review of open liability claims that resulted in new assessments of carried case and incurred but not reported ("IBNR") reserve levels, giving consideration to both Company and industry trends.

Loss and LAE reserves

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

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

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

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

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

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

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

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

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

Three key assumptions that materially affect the estimate of loss reserves are the loss ratio estimate for the current accident year used in the BF methods, the loss development factor selections used in the loss development methods, and the loss severity assumptions used in the frequency / severity method described above. The loss ratio estimates used in the BF methods are selected after reviewing historical accident year loss ratios adjusted for rate changes, trend, and mix of business. The loss severity assumptions used in the frequency / severity method are determined by reviewing historical average claim severity for older more mature accident periods, trended forward to less mature accident periods.

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

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In New York State, lawsuits for negligence are subject to certain limitations and must be commenced within three years from the date of the accident or are otherwise barred. Accordingly, the Company's exposure to unreported claims ("pure" IBNR) for accident dates of December 31, 2017 and prior is limited, although there remains the possibility of adverse development on reported claims ("case development" IBNR). In certain rare circumstances states have retroactively revised a statute of limitations. The Company is not aware of any such effort that would have a material impact on the Company's results.

The following is information about incurred and paid claims development as of December 31, 2020, net of reinsurance, as well as the cumulative reported claims by accident year and total IBNR reserves as of December 31, 2020 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, 2011 to December 31, 2019 is presented as supplementary unaudited information.

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**All Lines of Business**

*(in thousands, except reported claims data)*

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance										As of December 31, 2020	
	For the Years Ended December 31,										IBNR	Cumulative Number of Reported Claims by Accident Year
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
	(Unaudited 2011 - 2019)											
2011	\$ 7,603	\$ 7,678	\$ 8,618	\$ 9,440	\$ 9,198	\$ 9,066	\$ 9,144	\$ 9,171	\$ 9,127	\$ 9,128	\$ -	1,914
2012		9,539	9,344	10,278	10,382	10,582	10,790	10,791	11,015	10,885	13	4,704(1)
2013			10,728	9,745	9,424	9,621	10,061	10,089	10,607	10,495	5	1,563
2014				14,193	14,260	14,218	14,564	15,023	16,381	16,428	257	2,138
2015					22,340	21,994	22,148	22,491	23,386	23,291	312	2,556
2016						26,062	24,941	24,789	27,887	27,966	461	2,878
2017							31,605	32,169	35,304	36,160	654	3,391
2018								54,455	56,351	58,441	1,928	4,208
2019									75,092	72,368	9,547	4,442
2020										63,083	11,421	5,596
<b>Total</b>										<u>\$ 328,244</u>		

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

**All Lines of Business**

*(in thousands)*

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance									
	For the Years Ended December 31,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	(Unaudited 2011 - 2019)									
2011	\$ 3,740	\$ 5,117	\$ 6,228	\$ 7,170	\$ 8,139	\$ 8,540	\$ 8,702	\$ 8,727	\$ 8,789	\$ 9,106
2012		3,950	5,770	7,127	8,196	9,187	10,236	10,323	10,428	10,451
2013			3,405	5,303	6,633	7,591	8,407	9,056	9,717	10,016
2014				5,710	9,429	10,738	11,770	13,819	14,901	15,491
2015					12,295	16,181	18,266	19,984	21,067	22,104
2016						15,364	19,001	21,106	23,974	25,234
2017							16,704	24,820	28,693	31,393
2018								32,383	44,516	50,553
2019									40,933	54,897
2020										39,045
<b>Total</b>										<u>\$ 268,291</u>

Net liability for unpaid loss and allocated loss adjustment expenses for the accident years presented	\$ 59,953
All outstanding liabilities before 2011, net of reinsurance	94
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance	<u>\$ 60,047</u>

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

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



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The reconciliation of the net incurred and paid claims development tables to the liability for 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**

<i>(in thousands)</i>	<b>As of December 31, 2020</b>
Liabilities for allocated loss and loss adjustment expenses, net of reinsurance	\$ 60,047
Total reinsurance recoverable on unpaid losses	20,154
Unallocated loss adjustment expenses	2,600
Total gross liability for loss and LAE reserves	\$ 82,801

The following is supplementary unaudited information about average historical claims duration as of December 31, 2020:

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

Years	1	2	3	4	5	6	7	8	9	10
All Lines of Business	47.2%	18.3%	10.3%	8.7%	8.2%	6.2%	3.1%	1.4%	0.5%	3.5%

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

**Note 12 – Stockholders’ Equity**

Dividends Declared

Dividends declared and paid on Common Stock were \$1,957,142 and \$3,501,366 for the years ended December 31, 2020 and 2019, respectively. The Company announced on February 1, 2021 that its Board of Directors approved a quarterly dividend of \$0.04 per share payable in cash on March 15, 2021 to stockholders of record as of February 26, 2021 (see Note 19 - Subsequent Events).

Stock Options

Effective August 12, 2014, the Company adopted the 2014 Equity Participation Plan (the “2014 Plan”) pursuant to which a maximum of 700,000 shares of Common Stock of the Company were initially authorized to be issued pursuant to the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock and stock bonuses. Incentive stock options granted under the 2014 Plan expire no later than ten years from the date of grant (except no later than five years for a grant to a 10% stockholder). Non-statutory stock options granted under the 2014 Plan expire no later than ten years from the date of grant. The Board of Directors or the Compensation Committee determines the vesting provisions for stock awards granted under the 2014 Plan, subject to the provisions of the 2014 Plan. On August 5, 2020, the Company’s stockholders approved amendments to the 2014 Plan, including an increase in the maximum number shares of Common Stock of the Company that are authorized to be issued pursuant to the 2014 Plan to 1,400,000.

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The results of operations for the years ended December 31, 2020 and 2019 include stock-based compensation expense for stock options totaling approximately \$68,000 and \$30,000, respectively. Stock-based compensation expense related to stock options for the years ended December 31, 2020 and 2019 is net of estimated forfeitures of approximately 16% and 17%, respectively. Such amounts have been included in the consolidated statements of operations and comprehensive income within other operating expenses.

The weighted average estimated fair value of stock options granted during the years ended December 31, 2020 and 2019 was \$1.66 per share and \$1.91 per share, respectively. The fair value of stock options at the grant date was estimated using the Black-Scholes option-pricing model.

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

	Years ended December 31,	
	2020	2019
Dividend Yield	3.14%	2.87%
Volatility	37.69%	36.11%
Risk-Free Interest Rate	1.40%	1.61%
Expected Life	2.75 years	3.25 years

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

A summary of stock option activity under the Company's 2014 Plan for the year ended December 31, 2020 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, 2020	82,000	\$ 8.61	3.38	\$ -
Granted	74,523	\$ 7.96	4.08	\$ -
Exercised	-	\$ -	-	\$ -
Forfeited	(36,557)	\$ 8.43	-	\$ (308,340)
Outstanding at December 31, 2020	119,966	\$ 8.26	3.55	\$ -
Vested and Exercisable at December 31, 2020	50,000	\$ 8.45	1.05	\$ -



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The aggregate intrinsic value of options outstanding and options exercisable at December 31, 2020 is calculated as the difference between the exercise price of the underlying options and the market price of the Company's Common Stock for the options that had exercise prices that were lower than the \$6.65 closing price of the Company's Common Stock on December 31, 2020. No options were exercised during the year ended December 31, 2020. The total intrinsic value of options forfeited during the year ended December 31, 2020 was \$-0-, determined as of the date of forfeiture.

Participants in the 2014 Plan may exercise their outstanding vested options, in whole or in part, by having the Company reduce the number of shares otherwise issuable by a number of shares having a fair market value equal to the exercise price of the option being exercised ("Net Exercise"), or by exchanging a number of shares owned for a period of greater than one year having a fair market value equal to the exercise price of the option being exercised ("Share Exchange"). The Company received cash proceeds of \$23,550 from the exercise of options for the purchase of 3,000 shares of common stock during the year ended December 31, 2019.

As of December 31, 2020, the estimated fair value of unamortized compensation cost related to unvested stock option awards was approximately \$64,000. Unamortized compensation cost as of December 31, 2020 is expected to be recognized over a remaining weighted-average vesting period of 1.27 years.

As of December 31, 2020, there were 843,316 shares reserved for grants under the 2014 Plan.

#### Restricted Stock Awards

A summary of the restricted Common Stock activity under the Company's 2014 Plan for the year ended December 31, 2020 is as follows:

<u>Restricted Stock Awards</u>	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value per Share</u>	<u>Aggregate Fair Value</u>
Balance at January 1, 2020	213,929	\$ 16.51	\$ 3,554,174
Granted	242,974	\$ 7.66	\$ 1,860,525
Vested	(66,673)	\$ 16.97	\$ (1,331,254)
Forfeited	(19,266)	\$ 15.18	\$ (292,455)
Balance at December 31, 2020	<u>370,964</u>	<u>\$ 9.96</u>	<u>\$ 3,990,999</u>

Fair value was calculated using the closing price of the Company's Common Stock on the grant date. For the years ended December 31, 2020 and 2019, stock-based compensation for these grants was approximately \$1,703,000 and \$1,472,000, respectively, which is included in other operating expenses on the accompanying consolidated statements of operations 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.

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**Note 13 - Statutory Financial Information and Accounting Policies**

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

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

State insurance laws restrict the ability of KICO to declare dividends. These restrictions are related to surplus and net investment income. Dividends are restricted to the lesser of 10% of surplus or 100% of investment income (on a statutory accounting basis) for the trailing 36 months, net of dividends paid by KICO during such period. State insurance regulators require insurance companies to maintain specified levels of statutory capital and surplus. Generally, dividends may only be paid out of unassigned surplus, and the amount of an insurer’s unassigned surplus following payment of any dividends must be reasonable in relation to the insurer’s outstanding liabilities and adequate to meet its financial needs. For the years ended December 31, 2020 and 2019, KICO paid dividends to Kingstone of \$6,000,000 and \$7,000,000, respectively. On February 18, 2021, KICO’s Board of Directors approved a cash dividend of \$1,000,000 to Kingstone, which was paid on February 25, 2021. For the years ended December 31, 2020 and 2019, KICO recorded statutory basis net loss of \$1,724,180 and \$4,519,183, respectively. At December 31, 2020 and 2019, KICO reported statutory basis surplus as regards policyholders of \$85,595,339 and \$93,844,197, respectively, as filed with the DFS.

Statutory Surplus

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

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**Note 14 - Risk Based Capital**

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

The RBC guidelines define specific capital levels based on a company’s ACL that are determined by the ratio of the company’s total adjusted capital (“TAC”) to its ACL. TAC is equal to statutory capital, plus or minus certain other specified adjustments. The Company’s TAC was above the ACL for each of the last two years and is in compliance with RBC requirements as of December 31, 2020 and 2019.

**Note 15 – Income Taxes**

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

The provision for income taxes is comprised of the following:

<i>Years ended December 31,</i>	<b>2020</b>	<b>2019</b>
Current federal income tax expense (benefit)	\$ (5,366,759)	\$ 174,779
Current state income tax expense (benefit)	(2,736)	238
Deferred federal and state income tax expense (benefit)	3,109,295	(1,991,208)
Income tax benefit	<u>\$ (2,260,200)</u>	<u>\$ (1,816,191)</u>

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

<i>Years ended December 31,</i>	<b>2020</b>		<b>2019</b>	
Computed expected tax (benefit) expense	\$ (270,440)	21.0%	\$ (1,634,334)	21.0%
State taxes, net of federal benefit	(233,752)	18.2	(247,909)	3.2
State valuation allowance	292,087	(22.7)	261,573	(3.4)
Benefit of higher tax brackets in NOL carryback - current year	(754,829)	58.6	-	-
Benefit of higher tax brackets in NOL carryback - prior year	(1,274,465)	99.0	-	-
Permanent differences				
Dividends received deduction	(118,113)	9.2	(97,631)	1.3
Non-taxable investment income	(55,752)	4.3	(39,901)	0.5
Excess benefit from stock-based compensation	-	-	184	-
Stock-based compensation	125,923	(9.8)	80,453	(1.0)
Other permanent differences	46,108	(3.6)	(15,961)	0.2
Prior year tax matters	(77,625)	6.0	(91,748)	1.2
Other	60,658	(4.7)	(30,917)	0.3
Income tax benefit, as reported	<u>\$ (2,260,200)</u>	<u>175.5%</u>	<u>\$ (1,816,191)</u>	<u>23.3%</u>

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

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

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Deferred tax asset:		
Net operating loss carryovers (1)	\$ -	\$ 1,586,247
Claims reserve discount	838,030	839,959
Unearned premium	3,880,275	3,105,344
Deferred ceding commission revenue	19,639	1,624,434
Other	648,691	462,019
Total deferred tax assets	<u>5,386,635</u>	<u>7,618,003</u>
Deferred tax liability:		
Investment in KICO (2)	759,543	759,543
Deferred acquisition costs	4,229,928	4,333,219
Intangibles	105,000	105,000
Depreciation and amortization	954,446	312,298
Net unrealized gains (losses) of securities	3,494,631	1,796,891
Total deferred tax liabilities	<u>9,543,548</u>	<u>7,306,951</u>
Net deferred income tax (liability) asset	<u>\$ (4,156,913)</u>	<u>\$ 311,052</u>

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

Type of NOL	December 31, 2020	December 31, 2019	Expiration
Federal only, current year (A)	1,200,056	1,517,866	
NOL carried back	(1,200,056)	(1,517,866)	
Federal only, current year	<u>\$ -</u>	<u>\$ -</u>	
State only (B)			December 31, 2040
Valuation allowance	(1,815,546)	(1,548,187)	
State only, net of valuation allowance	<u>-</u>	<u>68,381</u>	
Total deferred tax asset from net operating loss carryovers	<u>\$ -</u>	<u>\$ 68,381</u>	

- (A) On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law, allowing for a five year carryback of 2020 and 2019 NOL's. The Company elected on its 2019 federal income tax return to carry back the 2019 NOL to tax years 2014 and 2015. The Company will elect on its 2020 federal income tax return to carry back the 2020 NOL to tax year 2015. The corporate tax rate in 2014 and 2015 was 34%, compared to the corporate tax rate of 21% in 2020 and 2019.
- (B) Kingstone generates operating losses for state purposes and has prior year NOLs available. The state NOL as of December 31, 2020 and 2019 was approximately \$27,931,000 and \$24,901,000, respectively. KICO, the Company's insurance underwriting subsidiary, is not subject to state income taxes. KICO's state tax obligations are paid through a gross premiums tax, which is included in the consolidated statements of operations and comprehensive income within other underwriting expenses. Kingstone has recorded a valuation allowance due to the uncertainty of generating enough state taxable income to utilize 100% of the available state NOLs over their remaining lives, which expire between 2027 and 2040.

(2) Deferred tax liability - investment in KICO

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

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The table below reconciles the changes in net deferred income tax assets (liabilities) to the deferred income tax provision for the year ended December 31, 2020:

Decrease in net deferred income tax assets	\$ 4,467,965
Deferred tax expense allocated to other comprehensive income	1,358,670
Deferred income tax expense	<u>\$ 3,109,295</u>

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

The Company had no material unrecognized tax benefit and no adjustments to liabilities or operations were required. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the years ended December 31, 2020 and 2019. 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, 2017 through December 31, 2019 remain subject to examination.

**Note 16 - Employee Benefit Plans**

Employee Bonus Plan

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

In December of 2020, management approved discretionary bonuses totaling approximately \$516,000 of expense for the year ended December 31, 2020, which is primarily recorded in other underwriting expenses on the accompanying consolidated statements of operations and comprehensive income.

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401 (k) Plan

The Company maintains a salary reduction plan under Section 401(k) of the Internal Revenue Code (the “401(k) Plan”) for its qualified employees. The Company matches 100% of each participant’s contribution up to 4% of the participant’s eligible contribution. The Company incurred approximately \$309,000 and \$305,000 of expense for the years ended December 31, 2020 and 2019, respectively, related to the 401(k) Plan, which is recorded in other operating expenses on the accompanying consolidated statements of operations and comprehensive income.

Deferred Compensation Plan

On June 18, 2018, the Company adopted the Kingstone Companies, Inc. Deferred Compensation Plan (the "Deferred Compensation Plan"). The Deferred Compensation Plan is offered to a select group (“Participants”), consisting of management and highly compensated employees as a method of recognizing and retaining such Participants. The Deferred Compensation Plan provides for eligible Participants to elect to defer up to 75% of their base compensation and up to 100% of bonuses and other compensation and to have such deferred amounts deemed to be invested in specified investment options. In addition to the Participant deferrals, the Company may choose to make matching contributions to some or all of the Participants in the Deferred Compensation Plan to the extent the Participant did not receive the maximum matching or non-elective contributions permissible under the Company’s 401(k) Plan due to limitations under the Internal Revenue Code or the 401(k) Plan. Participants may elect to receive payment of their account balances in a single cash payment or in annual installments for a period of up to ten years. The deferred compensation liability as of December 31, 2020 and 2019 amounted to \$763,789 and \$599,274, respectively, and is recorded in accounts payable, accrued expenses and other liabilities in the accompanying consolidated balance sheets. The Company made voluntary contributions of \$4,473 and \$5,399 for the years ended December 31, 2020 and 2019, respectively, which are recorded in other operating expenses in the accompanying consolidated statements of operations and comprehensive income.

**Note 17 - Commitments and Contingencies**

Litigation

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

On June 12, 2019, Phillip Woolgar filed a suit naming the Company and certain present or former officers and directors as defendants in a putative class action captioned *Woolgar v. Kingstone Companies et al.*, 19 cv 05500 (S.D.N.Y.), asserting claims under Section 10(b) of the Exchange Act and SEC Rule 10b-5 promulgated thereunder and Section 20(a) of the Exchange Act. Plaintiff sought to represent a class of persons or entities that purchased Kingstone securities between March 14, 2018, and April 29, 2019, and alleged violations of the federal securities law in connection with the Company’s April 29, 2019 announcement regarding losses related to winter catastrophe events. The lawsuit alleged that the Company failed to disclose that it did not adequately follow industry best practices related to claims handling and thus did not record sufficient claim reserves, and that as a result, Defendants’ positive statements about the Company’s business, operations and prospects misled investors. Plaintiff sought, among other things, an undetermined amount of money damages. On August 10, 2020, the court granted the Company’s motion to dismiss the amended complaint in the suit. The court permitted plaintiff to amend the complaint to attempt to cure the deficiencies identified by the court in its opinion (to the extent plaintiff had a good faith basis to do so) by September 11, 2020. Plaintiff failed to replead by the September 11, 2020 deadline. On September 16, 2020, the court issued an order closing the case. Plaintiff did not file an appeal, rendering the dismissal final and the Company considers the matter closed.

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**Office Leases**

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

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

On July 8, 2019, the Company entered into a lease agreement for an additional office facility for Cosi located in Valley Stream, New York under a non-cancelable operating lease. The lease has a term of seven years and two months expiring December 31, 2026.

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

	Year ended December 31, 2020	Year ended December 31, 2019
<b>Lease cost</b>		
Operating leases	\$ 245,188	\$ 165,368
Short-term leases	-	-
Total lease cost (1)	<u>\$ 245,188</u>	<u>\$ 165,368</u>
<b>Other information on operating leases</b>		
Cash payments included in the measurement of lease liability reported in operating cash flows	\$ 255,626	\$ 169,861
Discount rate	5.50%	5.50%
Remaining lease term in years	4.94 years	5.88 years

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

Operating lease right-of-use assets, included in other assets, were \$949,434 and \$1,157,554 as of December 31, 2020 and 2019, respectively. Operating lease right-of-use liabilities, included in accounts payable, accrued expenses and other liabilities, were \$949,434 and \$1,157,554 as of December 31, 2020 and 2019, respectively.



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The following table presents the contractual maturities of the Company's lease liabilities as of December 31, 2020:

	<b>For the Year Ending December 31,</b>	<b>Total</b>
2021		264,571
2022		273,831
2023		283,415
2024		140,739
2025		94,799
Thereafter		98,117
Total undiscounted lease payments		1,155,472
Less: present value adjustment		187,003
Operating lease liability		<u>\$ 968,469</u>

Rent expense for the years ended December 31, 2020 and 2019 amounted to \$245,188 and \$165,368, respectively, and is included in the accompanying consolidated statements of operations and comprehensive income within other underwriting expenses.

#### Employment Agreements

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

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

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

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Pursuant to the Amended Employment Agreement, in January 2020, Mr. Goldstein received a grant of 157,431 shares of restricted stock, under the terms of the Company's 2014 Plan determined by dividing \$1,250,000 by the fair market value of the Company's Common Stock on the date of grant. This 2020 grant will become vested with respect to one-third of the award on each of the first and second anniversaries of the grant date and on December 31, 2022 based on the continued provision of services through the applicable vesting date. Also pursuant to the Amended Employment Agreement, Mr. Goldstein will be entitled to receive a grant, under the terms of the 2014 Plan, during January 2021, of a number of shares of restricted stock determined by dividing \$1,500,000 by the fair market value of the Company's Common Stock on the date of grant. The January 2021 grant will become vested with respect to one-half of the award on each of the first anniversary of the grant date and on December 31, 2022 based on the continued provision of services through the applicable vesting date. Further, pursuant to the Amended Employment Agreement, Mr. Goldstein is entitled to receive a grant, under the terms of the 2014 Plan, during each of 2020, 2021 and 2022, of a number of shares of restricted stock determined by dividing \$136,500 by the fair market value of the Company's Common Stock on the date of grant. In January 2020, Mr. Goldstein was granted 17,191 shares of restricted stock pursuant to this provision. This grant will become vested with respect to one-third of the award on each of the first and second anniversaries of the grant date and on December 31, 2022 based on the continued provision of services through the applicable vesting date. The 2021 grant will become vested with respect to one-half of the award on each of the first anniversary of the grant date and on December 31, 2022 based on the continued provision of services through the applicable vesting date. The 2022 grant will become vested on December 31, 2022 based on the continued provision of services through such date.

*Meryl Golden, Chief Operating Officer*

On September 16, 2019, the Company and Meryl Golden entered into an employment agreement (the "Golden Employment Agreement") pursuant to which Ms. Golden serves as the Company's Chief Operating Officer. Ms. Golden also serves KICO's Chief Operating Officer. The Golden Employment Agreement became effective as of September 25, 2019 (amended on December 24, 2020) and now expires on December 31, 2022.

Pursuant to the Golden Employment Agreement, Ms. Golden is entitled to receive an annual salary of \$500,000. The Golden Employment also provides for the grant on the effective date of a five year option for the purchase of 50,000 shares of the Company's Common Stock pursuant to the 2014 Plan. The options granted vest in four equal installments, with the first installment vesting on the grant date, and the remaining installments vesting on the first, second, and third anniversaries of the grant date, subject to the terms of the stock option agreement between the Company and Ms. Golden. In January 2021, pursuant to the Golden Employment Agreement as amended, Ms. Golden was granted 30,000 shares of restricted Common Stock pursuant to the 2014 Plan and will be entitled to receive in January 2022 an additional grant of 30,000 shares of restricted Common Stock pursuant to the 2014 Plan. Each such grant vests in three equal installments on each of the first, second and third anniversaries of the grant date.

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*Dale A. Thatcher*

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

In connection with his separation from employment, each of the Company and KICO entered into an Agreement and General Release (the "Separation Agreement") with Mr. Thatcher. Pursuant to the Separation Agreement, the Company and KICO shall collectively provide the following payments and benefits to Mr. Thatcher in full satisfaction of all payments and benefits and other amounts due to him under the terms of the existing employment agreements upon his separation from employment: (i) \$381,111 (representing the amount of base salary he would have received had he remained employed through March 31, 2020), (ii) \$5,000 in full satisfaction for any bonus payments payable under the existing employment agreements, (iii) continuing group health coverage commencing on the Separation Date and ending on March 31, 2020, and (iv) continued vesting of all stock awards previously granted to Mr. Thatcher in his capacity as an executive officer but which were unvested as of the Separation Date (the "Shares") (Mr. Thatcher shall not be entitled to any further grants of stock awards after the Separation Date). Effective January 27, 2021, the Company entered into an agreement (the "Relinquishment Agreement") with Mr. Thatcher. Pursuant to the Relinquishment Agreement, Mr. Thatcher relinquished his right to receive 14,077 unissued Shares which vested on January 1, 2021, the right to receive 11,905 Shares which were scheduled to vest on March 14, 2021 and the right to receive 14,076 Shares which were scheduled to vest on January 1, 2022 in full consideration of the payment by the Company of an aggregate of \$280,406.

In addition, the Company and KICO agreed to provide Mr. Thatcher with a severance payment of \$20,000 in consideration for a release. Pursuant to the Separation Agreement, Mr. Thatcher agreed that, for a period of three years following the Separation Date, he shall not accept any operating executive role with another property and casualty insurance company.

#### COVID-19

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

#### **Note 18 - Earnings Per Common Share**

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

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The computation of diluted earnings(loss) per common share excludes outstanding options in periods where the exercise of such options would be anti-dilutive. For the years ended December 31, 2020 and 2019, no options were included in the computation of diluted earnings (loss) per common share as they would have been anti-dilutive for the relevant periods and, as a result, the weighted average number of shares of Common Stock used in the calculation of diluted earnings per common share has not been adjusted for the effect of such options.

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

	<b>Years ended</b>	
	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Weighted average number of shares outstanding	10,721,342	10,773,623
Effect of dilutive securities, common share equivalents:		
Stock options	-	-
Restricted stock awards	9,395	-
Weighted average number of shares outstanding, used for computing diluted earnings per share	<u>10,730,737</u>	<u>10,773,623</u>

#### **Note 19 - Subsequent Events**

The Company has evaluated events that occurred subsequent to December 31, 2020 through March 31, 2021, the date these consolidated financial statements were issued, for matters that required disclosure or adjustment in these consolidated financial statements.

#### Dividends Declared and Paid

On February 1, 2021, the Company announced that its Board of Directors approved a quarterly dividend of \$0.04 per share payable in cash on March 15, 2021 to stockholders of record as of the close of business on February 26, 2021 (see Note 12).

#### Restricted Stock Awards

Pursuant to the terms of the Relinquishment Agreement between the Company and Mr. Thatcher, effective January 27, 2021, Mr. Thatcher relinquished his right to receive 14,077 unissued Shares which vested on January 1, 2021, the right to receive 11,905 Shares which were scheduled to vest on March 14, 2021 and the right to receive 14,076 Shares which were scheduled to vest on January 1, 2022 in full consideration of the payment by the Company of an aggregate of \$280,406 (see Note 17).

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**Note 20 – Quarterly Financial Data (Unaudited)**

The following is a summary of unaudited quarterly results of operations for the years ended December 31, 2020 and 2019:

	<b>2020</b>				
	<b>March 31,</b>	<b>June 30,</b>	<b>September 30,</b>	<b>December 31,</b>	<b>Total</b>
Net premiums earned	\$ 26,941,450	\$ 26,636,856	\$ 27,521,081	\$ 26,981,242	\$ 108,080,629
Ceding commission revenue	3,831,099	3,480,214	3,448,774	3,442,266	14,202,353
Net investment income	1,665,844	1,612,006	1,494,086	1,733,667	6,505,603
Net gains (losses) on investments	(6,444,418)	2,697,868	2,107,876	3,229,290	1,590,616
Total revenues	26,253,605	34,689,332	34,822,471	35,604,343	131,369,751
Loss and loss adjustment expenses	16,385,821	12,813,631	20,117,975	17,113,645	66,431,072
Commission expense and other underwriting expenses	14,617,718	14,086,013	14,383,144	14,166,078	57,252,953
Net income (loss)	(5,444,203)	4,608,190	(1,227,856)	3,036,259	972,390
Basic earnings (loss) per share	\$ (0.50)	\$ 0.43	\$ (0.12)	\$ 0.28	\$ 0.09
Diluted earnings (loss) per share	\$ (0.50)	\$ 0.43	\$ (0.12)	\$ 0.28	\$ 0.09

	<b>2019</b>				
	<b>March 31,</b>	<b>June 30,</b>	<b>September 30,</b>	<b>December 31,</b>	<b>Total</b>
Net premiums earned	\$ 29,595,889	\$ 31,201,279	\$ 34,220,010	\$ 32,606,264	\$ 127,623,442
Ceding commission revenue	1,277,683	675,695	1,029,582	1,667,891	4,650,851
Net investment income	1,623,712	1,719,769	1,856,553	1,669,312	6,869,346
Net gains on investments	2,035,363	678,655	998,162	878,839	4,591,019
Total revenues	34,848,269	34,615,312	38,447,698	37,208,687	145,119,966
Loss and loss adjustment expenses	29,134,224	17,672,308	24,781,318	18,594,474	90,182,324
Commission expense and other underwriting expenses	12,975,718	12,720,317	14,153,559	14,663,720	54,513,314
Net income (loss)	(7,335,190)	1,639,380	(1,725,162)	1,454,619	(5,966,353)
Basic earnings (loss) per share	\$ (0.68)	\$ 0.15	\$ (0.16)	\$ 0.13	\$ (0.55)
Diluted earnings (loss) per share	\$ (0.68)	\$ 0.15	\$ (0.16)	\$ 0.13	\$ (0.55)

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

## CERTIFICATION

I, Barry B. Goldstein, certify that:

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

Date: March 31, 2021

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

## CERTIFICATION

I, Scott Van Pelt, certify that:

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

Date: March 31, 2021

/s/ Scott Van Pelt  
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Scott Van Pelt  
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

**AND CHIEF FINANCIAL OFFICER**

**PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certify, pursuant to, and as required by, 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Kingstone Companies, Inc. (the "Company") on Form 10-K for the year ended December 31, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 31, 2021

/s/ Barry B. Goldstein

Barry B. Goldstein  
Chief Executive Officer

/s/ Scott Van Pelt

Scott Van Pelt  
Chief Financial Officer