KINGSTONE COMPANIES, INC.
Form 10-Q
August 09, 2018

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

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR

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

Commission File Number 0-1665

KINGSTONE COMPANIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	36-2476480
(State or other jurisdiction of incorporation or organization)	(I.R.S. EmployerIdentification Number)

15 Joys Lane
Kingston, NY 12401
(Address of principal executive offices)

(845) 802-7900
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		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 August 9, 2018, there were 10,663,599 shares of the registrant’s common stock outstanding.

KINGSTONE COMPANIES, INC.
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Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally, these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, projected or anticipated benefits from acquisitions to be made by us, or projections involving anticipated revenues, earnings or other aspects of our operating results. The words "may," "will," "expect," "believe," "anticipate," "project," "plan," "intend," "estimate," and "continue," and their opposites and similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control that may influence the accuracy of the statements and the projections upon which the statements are based. Factors which may affect our results include, but are not limited to, the risks and uncertainties discussed in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017 under “Factors That May Affect Future Results and Financial Condition.”

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

PART I. FINANCIAL INFORMATION

Item 1.
Financial Statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	June 30, 2018 (unaudited)	December 31, 2017
Assets		
Fixed-maturity securities, held-to-maturity, at amortized cost (fair value of $5,033,545 at June 30, 2018 and $5,150,076 at December 31, 2017)	$4,870,743	$4,869,808
Fixed-maturity securities, available-for-sale, at fair value (amortized cost of $145,707,769 at June 30, 2018 and $119,122,106 at December 31, 2017)	142,545,533	119,988,256
Equity securities, at fair value (cost of $17,291,038 at June 30, 2018 and $13,761,841 at December 31, 2017)	17,384,984	14,286,198
Other investments	2,120,700	-
Total investments	166,921,960	139,144,262
Cash and cash equivalents	19,387,971	48,381,633
Investment subscription receivable	-	2,000,000
Premiums receivable, net	14,337,192	13,217,698
Reinsurance receivables, net	27,892,404	28,519,130
Deferred policy acquisition costs	16,071,756	14,847,236
Intangible assets, net	840,000	1,010,000
Property and equipment, net	5,456,563	4,772,577
Deferred income taxes	429,459	-
Other assets	4,052,494	2,655,527
Total assets	$255,389,799	$254,548,063
Liabilities		
Loss and loss adjustment expense reserves	$49,257,856	$48,799,622
Unearned premiums	71,139,929	65,647,663
Advance premiums	2,831,829	1,477,693
Reinsurance balances payable	4,185,624	2,563,966
Deferred ceding commission revenue	4,759,134	4,266,412
Accounts payable, accrued expenses and other liabilities	5,281,458	7,487,654
Deferred income taxes	-	600,342

Long-term debt, net	29,207,161	29,126,965
Total liabilities	166,662,991	159,970,317
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, $.01 par value; authorized 2,500,000 shares	-	-
Common stock, $.01 par value; authorized 20,000,000 shares; issued 11,685,904 shares at June 30, 2018 and 11,618,646 at December 31, 2017; outstanding 10,661,460 shares at June 30, 2018 and 10,631,837 shares at December 31, 2017	116,859	116,186
Capital in excess of par	68,347,784	68,380,390
Accumulated other comprehensive (loss) income	(2,496,981)	1,100,647
Retained earnings	25,471,668	27,152,822
	91,439,330	96,750,045
Treasury stock, at cost, 1,024,444 shares at June 30, 2018 and 986,809 shares at December 31, 2017	(2,712,522)	(2,172,299)
Total stockholders' equity	88,726,808	94,577,746
Total liabilities and stockholders' equity	$255,389,799	$254,548,063

See accompanying notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues				
Net premiums earned	$24,104,614	$16,953,727	$46,942,231	$33,323,475
Ceding commission revenue	1,691,168	3,305,938	3,386,326	6,490,390
Net investment income	1,556,866	1,026,004	2,940,855	1,883,804
Net (losses) gains on investments	(106,733)	130,423	(629,860)	75,917
Other income	300,271	308,159	608,504	597,859
Total revenues	27,546,186	21,724,251	53,248,056	42,371,445
Expenses				
Loss and loss adjustment expenses	11,176,085	7,454,922	28,442,415	15,747,918
Commission expense	6,017,189	5,101,566	11,817,137	9,990,544
Other underwriting expenses	5,075,986	4,199,616	10,107,489	8,412,033
Other operating expenses	843,816	906,690	1,090,674	1,662,494
Depreciation and amortization	424,161	326,174	833,592	644,872
Interest expense	451,962	-	908,507	-
Total expenses	23,989,199	17,988,968	53,199,814	36,457,861
Income from operations before taxes	3,556,987	3,735,283	48,242	5,913,584
Income tax expense	799,690	1,224,891	8,879	1,932,612
Net income	2,757,297	2,510,392	39,363	3,980,972
Other comprehensive (loss) income, net of tax				
Gross change in unrealized (losses) gains on available-for-sale-securities	(1,475,767)	951,047	(4,349,246)	1,475,869
Reclassification adjustment for (losses) gains included in net income	76,126	(130,423)	319,899	(75,917)
Net change in unrealized (losses) gains	(1,399,641)	820,624	(4,029,347)	1,399,952

Income tax benefit (expense) related to items of other comprehensive (loss) income	293,723	(279,012)	845,961	(475,984)
Other comprehensive (loss) income, net of tax	(1,105,918)	541,612	(3,183,386)	923,968
Comprehensive income (loss)	$1,651,379	$3,052,004	$(3,144,023)	$4,904,940
Earnings per common share:				
Basic	$0.26	$0.24	$0.00	$0.39
Diluted	$0.25	$0.23	$0.00	$0.39
Weighted average common shares outstanding				
Basic	10,664,806	10,622,496	10,667,385	10,145,772
Diluted	10,820,322	10,822,577	10,828,020	10,337,213
Dividends declared and paid per common share	$0.1000	$0.0800	$0.2000	$0.1425

See accompanying notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Stockholders' Equity (Unaudited)
Six months ended June 30, 2018

	Preferred Stock		Common Stock		Capital in Excess	Accumulated Other Comprehensive	Retained	Treasury Stock	
	Shares	Amount	Shares	Amount	of Par	Income (Loss)	Earnings	Shares	Amount
Balance, January 1, 2018, as reported	-	$-	11,618,646	$116,186	$68,380,390	$1,100,647	$27,152,822	986,809	$(2,172,2
Cumulative effect of adoption of updated accounting guidance for equity financial instruments at January 1, 2018	-	-	-	-	-	(414,242)	414,242	-	-
Balance, January 1, 2018, as adjusted	-	-	11,618,646	116,186	68,380,390	686,405	27,567,064	986,809	(2,172,2
Stock-based compensation	-	-	-	-	284,477	-	-	-	-
Shares deducted from exercise of stock									

options for payment of withholding taxes	-	-	(15,750)	(158)	(341,612)	-	-	-	-
Vesting of restricted stock awards	-	-	10,886	109	(109)	-	-	-	-
Shares deducted from restricted stock awards for payment of withholding taxes	-	-	(1,154)	(14)	(21,509)	-	-	-	-
Exercise of stock options	-	-	73,276	736	46,147	-	-	-	-
Acquisition of treasury stock	-	-	-	-	-	-	-	37,635	(540,223
Dividends	-	-	-	-	-	-	(2,134,759)	-	-
Net income	-	-	-	-	-	-	39,363	-	-
Change in unrealized losses on available-for-sale securities, net of tax	-	-	-	-	-	(3,183,386)	-	-	-
Balance, June 30, 2018	-	$-	11,685,904	$116,859	$68,347,784	$(2,496,981)	$25,471,668	1,024,444	$(2,712,5

See accompanying notes to condensed consolidated financial statements.

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KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

Six months ended June 30,	2018	2017
Cash flows from operating activities:		
Net income	$39,363	$3,980,972
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Net losses (gains) on investments	629,860	(75,917)
Depreciation and amortization	833,592	644,872
Amortization of bond premium, net	174,110	258,269
Amortization of discount and issuance costs on long-term debt	80,196	-
Stock-based compensation	284,477	127,768
Deferred income tax benefit	(183,840)	(303,093)
(Increase) decrease in operating assets:		
Premiums receivable, net	(1,119,494)	(1,476,679)
Reinsurance receivables, net	626,726	(2,346,078)
Deferred policy acquisition costs	(1,224,520)	(1,044,884)
Other assets	(1,400,192)	173,510
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	458,234	2,459,857
Unearned premiums	5,492,266	4,040,470
Advance premiums	1,354,136	748,419
Reinsurance balances payable	1,621,658	657,922
Deferred ceding commission revenue	492,722	377,125
Accounts payable, accrued expenses and other liabilities	(2,206,196)	(849,674)
Net cash flows provided by operating activities	5,953,098	7,372,859
Cash flows from investing activities:		
Purchase - fixed-maturity securities available-for-sale	(42,305,529)	(36,818,402)
Purchase - equity securities	(8,221,931)	(2,275,929)
Sale and redemption - fixed-maturity securities held-to-maturity	-	200,000
Sale or maturity - fixed-maturity securities available-for-sale	15,172,845	5,732,151
Sale - equity securities available-for-sale	4,746,825	798,973
Acquisition of fixed assets	(1,347,578)	(1,301,850)
Net cash flows used in investing activities	(31,955,368)	(33,665,057)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	-	30,136,699

Proceeds from exercise of stock options	46,883	39,361
Withholding taxes paid on net exercise of stock options	(341,770)	-
Withholding taxes paid on vested retricted stock awards	(21,523)	(8,888)
Purchase of treasury stock	(540,223)	(48,396)
Dividends paid	(2,134,759)	(1,513,633)
Net cash flows (used in) provided by financing activities	(2,991,392)	28,605,143
(Decrease) increase in cash and cash equivalents	$(28,993,662)	$2,312,945
Cash and cash equivalents, beginning of period	48,381,633	12,044,520
Cash and cash equivalents, end of period	$19,387,971	$14,357,465
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$801,000	$1,762,000
Cash paid for interest	$875,417	$-

See accompanying notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Nature of Business and Basis of Presentation

Kingstone Companies, Inc. (referred to herein as "Kingstone" or the “Company”), through its wholly owned subsidiary, Kingstone Insurance Company (“KICO”), underwrites property and casualty insurance to small businesses and individuals exclusively through independent agents and brokers. KICO is a licensed insurance company in the States of New York, New Jersey, Rhode Island, Massachusetts, Pennsylvania, Connecticut, Maine, New Hampshire and Texas. KICO is currently offering its property and casualty insurance products in New York, New Jersey, Rhode Island, Massachusetts and Pennsylvania. Although New Jersey, Rhode Island and Massachusetts are now growing expansion markets for the Company, 94.1% and 95.4% of KICO’s direct written premiums for the three months and six months ended June 30, 2018, respectively, came from the New York policies.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and the instructions to Securities and Exchange Commission (“SEC”) Form 10-Q and Article 10 of SEC Regulation S-X. The principles for condensed interim financial information do not require the inclusion of all the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended December 31, 2017 and notes thereto included in the Company’s Annual Report on Form 10-K filed with the SEC on March 15, 2018. The accompanying condensed consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with standards of the Public Company Accounting Oversight Board (United States) but, in the opinion of management, such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the Company’s financial position and results of operations. The results of operations for the six months ended June 30, 2018 may not be indicative of the results that may be expected for the year ending December 31, 2018.

Note 2 – Accounting Policies

Use of Estimates

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

Principles of Consolidation

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

Accounting Changes

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09 – Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”). The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. ASU 2014-09, as amended by ASU 2015-14, ASU 2016-08, ASU 2016-10 and ASU 2016-20, is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company adopted ASU 2014-09 effective January 1, 2018. The standard excludes from its scope the accounting for insurance contracts, financial instruments, and certain other agreements that are governed under other GAAP guidance. Accordingly, the adoption of ASU 2014-09, as amended, did not have a material impact on the Company’s condensed consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). Effective January 1, 2018, the Company has adopted the provisions of ASU 2016-01. The updated guidance requires equity investments, including limited partnership interests, except those accounted for under the equity method of accounting, that have readily determinable fair value to be measured at fair value with any changes in fair value recognized in net income. Equity securities that do not have readily determinable fair values may be measured at estimated fair value or cost less impairment, if any, adjusted for subsequent observable price changes, with changes in the carrying value recognized in net income. A qualitative assessment for impairment is required for equity investments without readily determinable fair values. The updated guidance also eliminates the requirement to disclose the method and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the balance sheet. The adoption of this guidance resulted in the recognition of approximately $414,000 of net after-tax unrealized gains on equity investments as a cumulative effect adjustment that increased retained earnings as of January 1, 2018 and decreased accumulated other comprehensive income (“AOCI”) by the same amount. The Company elected to report changes in the fair value of equity investments in net losses on investments in the condensed consolidated statements of income and comprehensive income (loss). At December 31, 2017, equity investments were classified as available-for-sale on the Company's balance sheet. However, upon adoption, the updated guidance eliminated the available-for-sale balance sheet classification for equity investments. Furthermore, the three months and six months ended June 30, 2018 net loss on investments of approximately $107,000 and $630,000, respectively, in the condensed consolidated statements of income and comprehensive income (loss) included approximately $30,000 and $310,000, respectively, from the fair value change of equity securities.

In August 2016, FASB issued ASU 2016-15 – Statement of Cash Flows (Topic 320): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”). The revised ASU provides accounting guidance for eight specific cash flow issues. FASB issued the standard to clarify areas where GAAP has been either unclear or lacking in specific guidance. The effective date of ASU 2016-15 was for interim and annual reporting periods beginning after December 15, 2017. The Company adopted this ASU effective January 1, 2018 and it did not have a material impact on the Company’s condensed consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting (“ASU 2017-09”). ASU 2017-09 clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The amendment should be applied on a prospective basis. The effective date of ASU 2017-09 was for interim and annual reporting periods, beginning after December 15, 2017. The Company adopted this ASU effective January 1, 2018 and it did not have a material impact on the Company’s condensed consolidated financial statements.

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

Accounting Pronouncements

In February 2016, FASB issued ASU 2016-02 – Leases (Topic 842) (“ASU 2016-02”). Under this ASU, lessees will recognize a right-of-use-asset and corresponding liability on the balance sheet for all leases, except for leases covering a period of fewer than 12 months. The liability is to be measured as the present value of the future minimum lease payments taking into account renewal options if applicable plus initial incremental direct costs such as commissions. The minimum payments are discounted using the rate implicit in the lease or, if not known, the lessee’s incremental borrowing rate. The lessee’s income statement treatment for leases will vary depending on the nature of what is being leased. A financing type lease is present when, among other matters, the asset is being leased for a substantial portion of its economic life or has an end-of-term title transfer or a bargain purchase option as in today’s practice. The payment of the liability set up for such leases will be apportioned between interest and principal; the right-of use asset will be generally amortized on a straight-line basis. If the lease does not qualify as a financing type lease, it will be accounted for on the income statement as rent on a straight-line basis. The guidance will be effective for the Company for interim and annual reporting periods beginning after December 15, 2018. The Company does not expect the adoption of ASU 2016-02 to have a significant impact on its consolidated results of operations, financial position or cash flows.

In June 2016, FASB issued ASU 2016-13 - Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). The revised accounting guidance requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. In addition, ASU 2016-13 amends the accounting for credit losses of available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective on January 1, 2020. The Company is currently evaluating the effect the updated guidance will have on its consolidated financial statements.

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

Note 3 - Investments

Fixed-Maturity Securities

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

	June 30, 2018					
						Net
	Cost or	Gross	Gross Unrealized Losses			Unrealized
	Amortized	Unrealized	Less than 12	More than 12	Fair	Gains/
Category	Cost	Gains	Months	Months	Value	(Losses)
Fixed-Maturity Securities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$8,207,870	$9,970	$(40,264)	$-	$8,177,576	$(30,294)
Political subdivisions of States, Territories and Possessions	6,575,843	39,481	(55,324)	(28,074)	6,531,926	(43,917)
Corporate and other bonds Industrial and miscellaneous	107,013,925	111,659	(2,617,680)	(377,166)	104,130,738	(2,883,187)

Residential mortgage and other asset backed securities (1)	23,910,131	306,272	(159,886)	(351,224)	23,705,293	(204,838)
Total	$145,707,769	$467,382	$(2,873,154)	$(756,464)	$142,545,533	$(3,162,236)

(1)
In 2017, KICO placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its membership in the Federal Home Loan Bank of New York ("FHLBNY") (See Note 7). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from the FHBLNY credit line. As of June 30, 2018, the fair value of the eligible investments was approximately $6,083,000. KICO will retain all rights regarding all securities if pledged as collateral. As of June 30, 2018, there was no outstanding balance on the credit line.

December 31, 2017

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

(1)

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

A summary of the amortized cost and fair value of the Company's investments in available-for-sale fixed-maturity securities by contractual maturity as of June 30, 2018 and December 31, 2017 is shown below:

	June 30, 2018		December 31, 2017	
	Amortized		Amortized	
Remaining Time to Maturity	Cost	Fair Value	Cost	Fair Value
Less than one year	$1,203,463	$1,200,051	$2,585,479	$2,595,938
One to five years	38,902,149	38,568,541	31,716,345	32,065,197
Five to ten years	78,718,637	76,286,658	62,702,945	63,129,543
More than 10 years	2,973,389	2,784,990	1,653,984	1,666,230
Residential mortgage and other asset backed securities	23,910,131	23,705,293	20,463,353	20,531,348
Total	$145,707,769	$142,545,533	$119,122,106	$119,988,256

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

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Equity Securities

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

June 30, 2018

Category	Cost	Gross Unrealized Gains	Gross Unrealized Losses: Less than 12 Months	Gross Unrealized Losses: More than 12 Months	Fair Value	Net Unrealized Gains/ (Losses)
Equity Securities:						
Preferred stocks	$6,792,075	$25,774	$(43,333)	$(114,138)	$6,660,378	$(131,697)
Common stocks and exchange traded mutual funds	10,498,963	662,490	(436,847)	-	10,724,606	225,643
Total	$17,291,038	$688,264	$(480,180)	$(114,138)	$17,384,984	$93,946

December 31, 2017

Category		Gross Unrealized	Gross Unrealized Losses: Less than 12	Gross Unrealized Losses: More than 12	Fair	Net Unrealized Gains/

	Cost	Gains	Months	Months	Value	(Losses)
Equity Securities:						
Preferred stocks	$7,081,099	$60,867	$(20,313)	$(120,712)	$7,000,941	$(80,158)
Common stocks and exchange traded mutual funds	6,680,742	841,250	(222,205)	(14,530)	7,285,257	604,515
Total	$13,761,841	$902,117	$(242,518)	$(135,242)	$14,286,198	$524,357

Other Investments

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

	June 30, 2018			December 31, 2017		
		Fair	Unrealized		Fair	Unrealized
Category	Cost	Value	Gain	Cost	Value	Gain
Other Investments:						
Hedge fund	$2,000,000	$2,120,700	$120,700	$-	$-	$-
Total	$2,000,000	$2,120,700	$120,700	$-	$-	$-

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Held-to-Maturity Securities

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

June 30, 2018

Category	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less than 12 Months	Gross Unrealized Losses More than 12 Months	Fair Value	Net Unrealized Gains/ (Losses)
Held-to-Maturity Securities:						
U.S. Treasury securities	$729,486	$147,553	$(5,934)	$-	$871,105	$141,619
Political subdivisions of States, Territories and Possessions	998,898	32,522	-	-	1,031,420	32,522
Corporate and other bonds Industrial and miscellaneous	3,142,359	33,076	(38,765)	(5,650)	3,131,020	(11,339)
Total	$4,870,743	$213,151	$(44,699)	$(5,650)	$5,033,545	$162,802

December 31, 2017

						Net
	Cost or	Gross	Gross Unrealized Losses			Unrealized
	Amortized	Unrealized	Less than 12	More than 12	Fair	Gains/
Category						

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

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

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

	June 30, 2018		December 31, 2017	
	Amortized		Amortized	
Remaining Time to Maturity	Cost	Fair Value	Cost	Fair Value
Less than one year	$-	$-	$-	$-
One to five years	3,398,823	3,398,780	2,546,459	2,601,898
Five to ten years	865,434	880,726	1,716,884	1,794,139
More than 10 years	606,486	754,039	606,466	754,039
Total	$4,870,743	$5,033,545	$4,869,808	$5,150,076

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

Investment Income

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Income:				
Fixed-maturity securities	$1,361,506	$935,543	$2,511,799	$1,680,996
Equity securities	194,091	128,501	394,588	264,986
Cash and cash equivalents	42,582	2,505	115,841	8,674
Total	1,598,179	1,066,549	3,022,228	1,954,656
Expenses:				
Investment expenses	41,313	40,545	81,373	70,852

Net investment income	$1,556,866	$1,026,004	$2,940,855	$1,883,804

Proceeds from the redemption of fixed-maturity securities held-to-maturity were $-0- and $200,000 for the six months ended June 30, 2018 and 2017, respectively.

Proceeds from the sale and maturity of fixed-maturity securities available-for-sale were $15,172,845 and $5,732,151 for the six months ended June 30, 2018 and 2017, respectively.

Proceeds from the sale of equity securities were $4,746,825 and $798,973 for the six months ended June 30, 2018 and 2017, respectively.

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Realized (Losses) Gains				
Fixed-maturity securities:				
Gross realized gains	$10,694	$48,595	$112,212	$61,718
Gross realized losses (1)	(149,859)	(74,437)	(483,227)	(110,557)
	(139,165)	(25,842)	(371,015)	(48,839)
Equity securities:				
Gross realized gains	90,427	156,265	315,250	156,265
Gross realized losses	(27,638)	-	(264,384)	(31,509)
	62,789	156,265	50,866	124,756
Net realized (losses) gains	(76,376)	130,423	(320,149)	75,917
Unrealized (Losses) Gains				
Equity securities:				
Gross gains	-	-	-	-
Gross losses	(123,197)	-	(430,411)	-
	(123,197)	-	(430,411)	-
Other investments:				
Gross gains	92,840	-	120,700	-
Gross losses	-	-	-	-
	92,840	-	120,700	-
Net unrealized losses	(30,357)	-	(309,711)	-
Net (losses) gains on investments	$(106,733)	$130,423	$(629,860)	$75,917

(1)

Gross realized losses for the six months ended June 30, 2017 include $747 of loss from the redemption of fixed-maturity securities held-to-maturity.

Impairment Review

Impairment of investment securities results in a charge to operations when a market decline below cost is deemed to be other-than-temporary. The Company regularly reviews its fixed-maturity securities (and reviewed the equity securities portfolios prior to January 1, 2018) to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of investments. In evaluating potential impairment, GAAP specifies (i) if the Company does not have the intent to sell a debt security prior to recovery and (ii) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When the Company does not intend to sell the security and it is more likely than not that the Company will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment ("OTTI") of a debt security in earnings and the remaining portion in comprehensive (loss) income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections. For held-to-maturity debt securities, the amount of OTTI recorded in comprehensive (loss) income for the noncredit portion of a previous OTTI is amortized prospectively over the remaining life of the security on the basis of timing of future estimated cash flows of the security.

OTTI losses are recorded in the condensed consolidated statements of income and comprehensive income (loss) as net realized losses on investments and result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process and different judgments and assumptions could affect the timing of loss realization. At June 30, 2018 and December 31, 2017, there were 159 and 75 fixed-maturity securities that accounted for the gross unrealized loss, respectively. In December 2017, the Company disposed of one of its held-to-maturity debt securities that was previously recorded in OTTI, a bond issued by the Commonwealth of Puerto Rico (“PR”). In July 2016, PR defaulted on its interest payment to bondholders. Due to the credit deterioration of PR, the Company recorded its first credit loss component of OTTI on this investment as of June 30, 2016. As of December 31, 2016, the full amount of the write-down was recognized as a credit component of OTTI in the amount of $69,911. In September 2017, Hurricane Maria significantly affected Puerto Rico. The impact of this event further contributed to the credit deterioration of PR and, as a result, the Company recorded an additional credit loss component of OTTI on this investment for the amount of $50,000 during the quarter ended September 30, 2017. The total of the two OTTI write-downs of this investment through December 31, 2017 was $119,911. The Company determined that none of the other unrealized losses were deemed to be OTTI for its portfolio of fixed-maturity investments, equity securities in 2017, and other investments for the six months ended June 30, 2018 and 2017. Significant factors influencing the Company’s determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security’s cost, the nature of the investment and management’s intent and ability to retain the investment for a period of time sufficient to allow for an anticipated recovery of fair value to the Company’s cost basis.

The Company held available-for-sale securities with unrealized losses representing declines that were considered temporary at June 30, 2018 as follows:

	June 30, 2018							
	Less than 12 months			12 months or more			Total	
			No. of			No. of	Aggregate	
	Fair	Unrealized	Positions	Fair	Unrealized	Positions	Fair	Unrealized
Category	Value	Losses	Held	Value	Losses	Held	Value	Losses
Fixed-Maturity Securities:								
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$4,927,910	$(40,264)	3	$-	$-	-	$4,927,910	$(40,264)
Political subdivisions of States, Territories and Possessions	3,524,361	(55,324)	7	616,383	(28,074)	1	3,524,361	(83,398)
Corporate and other bonds industrial and miscellaneous	85,149,695	(2,617,680)	107	6,491,755	(377,166)	13	85,149,695	(2,994,846)
Residential mortgage and								

other asset backed securities	11,139,070	(159,886)	13	9,439,267	(351,224)	15	11,139,070	(511,110)
Total fixed-maturity securities	$104,741,036	$(2,873,154)	130	$16,547,405	$(756,464)	29	$104,741,036	$(3,629,618)

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

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

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

Note 4 - Fair Value Measurements

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

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

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

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

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

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

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

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Fixed-maturity securities available-for-sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$8,177,576	$-	$-	$8,177,576
Political subdivisions of States, Territories and Possessions	-	6,531,926	-	6,531,926
Corporate and other bonds industrial and miscellaneous	100,445,692	3,685,046	-	104,130,738
Residential mortgage backed securities	-	23,705,293	-	23,705,293
Total fixed maturities	108,623,268	33,922,265	-	142,545,533
Equity securities	17,384,984	-	-	17,384,984
Total investments	$126,008,252	$33,922,265	$-	$159,930,517

	December 31, 2017			
	Level 1	Level 2	Level 3	Total

Fixed-maturity securities available-for-sale				
Political subdivisions of States, Territories and Possessions	$-	$11,315,443	$-	$11,315,443
Corporate and other bonds industrial and miscellaneous	83,597,300	4,544,165	-	88,141,465
Residential mortgage backed securities	-	20,531,348	-	20,531,348
Total fixed maturities	83,597,300	36,390,956	-	119,988,256
Equity securities	14,286,198	-	-	14,286,198
Total investments	$97,883,498	$36,390,956	$-	$134,274,454

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The following table sets forth the Company's investment in a hedge fund investment subject to net asset valuation ("NAV") per share (or its equivalent) as of June 30, 2018 and December 31, 2017. The Company measures this investment at fair value on a recurring basis. As of June 30, 2018, the Company used net asset value per share as a practical expedient for fair value. Fair value using NAV per share is as follows as of the dates indicated:

Category	June 30, 2018	December 31, 2017
Other Investments:		
Hedge fund	$2,120,700	$-
Total	$2,120,700	$-

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

Note 5 - Fair Value of Financial Instruments and Real Estate

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

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

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

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

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

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

Long-term debt: The carrying value reported in the condensed consolidated balance sheets for these financial instruments approximates fair value.

The estimated fair values of the Company's financial instruments and real estate as of June 30, 2018 and December 31, 2017 are as follows:

	June 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed-maturity securities-held-to maturity	$4,870,743	$5,033,545	$4,869,808	$5,150,076
Cash and cash equivalents	$19,387,971	$19,387,971	$48,381,633	$48,381,633
Investment subscription receivable	$-	$-	$2,000,000	$2,000,000
Premiums receivable, net	$14,337,192	$14,337,192	$13,217,698	$13,217,698
Reinsurance receivables, net	$27,892,404	$27,892,404	$28,519,130	$28,519,130
Real estate, net of accumulated depreciation	$2,215,291	$2,705,000	$2,261,829	$2,705,000
Reinsurance balances payable	$4,185,624	$4,185,624	$2,563,966	$2,563,966
Long-term debt, net	$29,207,161	$29,207,161	$29,126,965	$29,126,965

Note 6 – Property and Casualty Insurance Activity

Premiums Earned

Premiums written, ceded and earned are as follows:

	Direct	Assumed	Ceded	Net
Six months ended June 30, 2018				
Premiums written	$68,389,960	$824	$(16,725,724)	$51,665,060
Change in unearned premiums	(5,495,329)	3,064	769,436	(4,722,829)
Premiums earned	$62,894,631	$3,888	$(15,956,288)	$46,942,231
Six months ended June 30, 2017				
Premiums written	$56,583,867	$6,293	$(20,128,555)	$36,461,605
Change in unearned premiums	(4,048,796)	8,327	902,339	$(3,138,130)
Premiums earned	$52,535,071	$14,620	$(19,226,216)	$33,323,475
Three months ended June 30, 2018				
Premiums written	$36,863,677	$488	$(8,899,489)	$27,964,676
Change in unearned premiums	(4,486,460)	1,163	625,235	(3,860,062)
Premiums earned	$32,377,217	$1,651	$(8,274,254)	$24,104,614

Three months ended June 30, 2017				
Premiums written	$30,458,400	$1,865	$(10,732,965)	$19,727,300
Change in unearned premiums	(3,717,893)	5,346	938,974	(2,773,573)
Premiums earned	$26,740,507	$7,211	$(9,793,991)	$16,953,727

Premium receipts in advance of the policy effective date are recorded as advance premiums. The balance of advance premiums as of June 30, 2018 and December 31, 2017 was $2,831,829 and $1,477,693, respectively.

Loss and Loss Adjustment Expense Reserves

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

	Six months ended June 30,	
	2018	2017
Balance at beginning of period	$48,799,622	$41,736,719
Less reinsurance recoverables	(16,748,908)	(15,776,880)
Net balance, beginning of period	32,050,714	25,959,839
Incurred related to:		
Current year	28,215,069	15,958,020
Prior years	227,346	(210,102)
Total incurred	28,442,415	15,747,918
Paid related to:		
Current year	14,656,892	7,462,585
Prior years	10,977,023	6,295,577
Total paid	25,633,915	13,758,162
Net balance at end of period	34,859,214	27,949,595
Add reinsurance recoverables	14,398,642	16,246,981
Balance at end of period	$49,257,856	$44,196,576

Incurred losses and LAE are net of reinsurance recoveries under reinsurance contracts of $8,017,022 and $7,426,541 for the six months ended June 30, 2018 and 2017, respectively.

Prior year incurred loss and LAE development is based upon estimates by line of business and accident year. Prior year loss and LAE development incurred during the six months ended June 30, 2018 and 2017 was $227,346 unfavorable and $(210,102) favorable, respectively. The Company's management continually monitors claims activity to assess the appropriateness of carried case and incurred but not reported ("IBNR") reserves, giving consideration to Company and industry trends.

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

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

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

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

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

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

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

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

The Company is not aware of any claim trends that have emerged or that would cause future adverse development that have not already been considered in existing case reserves and in its current loss development factors.

In New York State, lawsuits for negligence are subject to certain limitations and must be commenced within three years from the date of the accident or are otherwise barred. Accordingly, the Company’s exposure to unreported claims (‘pure’ IBNR) for accident dates of June 30, 2015 and prior is limited although there remains the possibility of adverse development on reported claims (‘case development’ IBNR).

The following is information about incurred and paid claims development as of June 30, 2018, net of reinsurance, as well as the cumulative reported claims by accident year and total IBNR reserves as of June 30, 2018 included in the net incurred loss and allocated expense amounts. The historical information regarding incurred and paid claims development for the years ended December 31, 2009 to December 31, 2015 is presented as supplementary unaudited information.

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

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

											As of	
	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance										June 30, 2018	
	For the Years Ended December 31,									Six Months Ended		Cumulative Number of Reported Claims
Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	June 30, 2018	IBNR	by Accident Year
	(Unaudited 2009 - 2015)							(Unaudited)				
2009	$4,403	$4,254	$4,287	$4,384	$4,511	$4,609	$4,616	$4,667	$4,690	$4,675	$5	1,136
2010		5,598	5,707	6,429	6,623	6,912	6,853	6,838	6,840	6,845	(1)	1,616
2011			7,603	7,678	8,618	9,440	9,198	9,066	9,144	9,186	9	1,913
2012				9,539	9,344	10,278	10,382	10,582	10,790	10,788	28	4,702(1)
2013					10,728	9,745	9,424	9,621	10,061	10,055	187	1,559
2014						14,193	14,260	14,218	14,564	14,802	506	2,128
2015							22,340	21,994	22,148	22,071	713	2,541
2016								26,062	24,941	24,356	2,008	2,853
2017									31,605	32,227	4,227	3,304
2018										26,940	5,436	2,017
									Total	$161,945		

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

All Lines of Business
(in thousands)

Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance

For the Years Ended December 31,

Six
Months Ended
June 30,

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	(Unaudited 2009 - 2015)									(Unaudited)
2009	$2,298	$3,068	$3,607	$3,920	$4,134	$4,362	$4,424	$4,468	$4,487	$4,659
2010		2,566	3,947	4,972	5,602	6,323	6,576	6,720	6,772	6,778
2011			3,740	5,117	6,228	7,170	8,139	8,540	8,702	8,715
2012				3,950	5,770	7,127	8,196	9,187	10,236	10,296
2013					3,405	5,303	6,633	7,591	8,407	8,698
2014						5,710	9,429	10,738	11,770	13,226
2015							12,295	16,181	18,266	19,150
2016								15,364	19,001	19,993
2017									16,704	23,287
2018										13,944
									Total	$128,746

Net liability for unpaid loss and allocated loss adjustment expenses for the accident years presented	$33,199
All outstanding liabilities before 2009, net of reinsurance	216
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance	$33,415

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

Reconciliation of the Disclosure of Incurred and Paid Loss Development

to the Liability for Loss and LAE Reserves

	As of
(in thousands)	June 30, 2018
Liabilities for allocated loss and loss adjustment expenses, net of reinsurance	$33,415
Total reinsurance recoverable on unpaid losses	14,399
Unallocated loss adjustment expenses	1,444
Total gross liability for loss and LAE reserves	$49,258

Reinsurance

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

The Company's quota share reinsurance treaties in effect for the six months ended June 30, 2018 for its personal lines business, which primarily consists of homeowners' policies, were covered under the July 1, 2017/June 30, 2018 treaty year ("2017/2019 Treaty") (two year treaty as described below). The Company's quota share reinsurance treaties in effect for the six months ended June 30, 2017 were covered under the July 1, 2016/June 30, 2017 treaty year ("2016/2017 Treaty").

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

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

	Treaty Year		
	July 1, 2018	July 1, 2017	July 1, 2016
	to	to	to
Line of Busines	June 30, 2019	June 30, 2018	June 30, 2017
Personal Lines:			
Homeowners, dwelling fire and canine legal liability			
Quota share treaty:			
Percent ceded	20%	20%	40%
Risk retained	$800,000	$800,000	$500,000
Losses per occurrence subject to quota share reinsurance coverage	$1,000,000	$1,000,000	$833,333
Excess of loss coverage and facultative facility above quota share coverage (1)	$9,000,000	$9,000,000	$3,666,667
	in excess of	in excess of	in excess of
	$1,000,000	$1,000,000	$833,333
Total reinsurance coverage per occurrence	$9,200,000	$9,200,000	$4,000,000
Losses per occurrence subject to reinsurance coverage	$10,000,000	$10,000,000	$4,500,000
Expiration date	June 30, 2019	June 30, 2019	June 30, 2017
Personal Umbrella			
Quota share treaty:			
Percent ceded - first $1,000,000 of coverage	90%	90%	90%
Percent ceded - excess of $1,000,000 dollars of coverage	100%	100%	100%
Risk retained	$100,000	$100,000	$100,000
Total reinsurance coverage per occurrence	$4,900,000	$4,900,000	$4,900,000
Losses per occurrence subject to quota share reinsurance coverage	$5,000,000		