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

FORM 10-Q

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended June 30, 2020

☐ **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: 001-37848

KINSALE CAPITAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**98-0664337**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2221 Edward Holland Drive
Suite 600
Richmond, Virginia 23230
(Address of principal executive offices, including zip code)

(804) 289-1300
(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, par value $0.01	KNSL	Nasdaq Global Select Market

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer ☐	Non-accelerated filer ☐	Smaller reporting company	☐	Emerging growth company	☐

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

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

Number of shares of the registrant's common stock outstanding at July 24, 2020: 22,303,443

KINSALE CAPITAL GROUP, INC.

TABLE OF CONTENTS

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any statement that does not directly relate to historical or current fact. These statements may discuss, among others, our future financial performance, our business prospects and strategy, our anticipated financial position, liquidity and capital, dividends and general market and industry conditions. You can identify forward-looking statements by words such as "anticipates," "estimates," "expects," "intends," "plans," "predicts," "projects," "believes," "seeks," "outlook," "future," "will," "would," "should," "could," "may," "can have" and similar terms. Forward-looking statements are based on management’s current expectations and assumptions about future events, which are subject to uncertainties, risks and changes in circumstances that are difficult to predict. These statements are only predictions and are not guarantees of future performance. Actual results may differ materially from those contemplated by a forward-looking statement. Factors that may cause such differences include, without limitation:

- the possibility that our loss reserves may be inadequate to cover our actual losses, which could have a material adverse effect on our financial condition, results of operations and cash flows;
- the inherent uncertainty of models resulting in actual losses that are materially different than our estimates;
- adverse economic factors, including recession, inflation, periods of high unemployment or lower economic activity resulting in the sale of fewer policies than expected or an increase in frequency or severity of claims and premium defaults or both, affecting our growth and profitability;
- a decline in our financial strength rating adversely affecting the amount of business we write;
- the potential loss of one or more key executives or an inability to attract and retain qualified personnel adversely affecting our results of operations;
- our reliance on a select group of brokers;
- the failure of any of the loss limitations or exclusions we employ, or change in other claims or coverage issues, having a material adverse effect on our financial condition or results of operations;
- the performance of our investment portfolio adversely affecting our financial results;
- the changing market conditions of our excess and surplus lines ("E&S") insurance operations, as well as the cyclical nature of our business, affecting our financial performance;
- extensive regulation adversely affecting our ability to achieve our business objectives or the failure to comply with these regulations adversely affecting our financial condition and results of operations;
- the ability to pay dividends being dependent on our ability to obtain cash dividends or other permitted payments from our insurance subsidiary;
- being forced to sell investments to meet our liquidity requirements;
- the inability to obtain reinsurance coverage at reasonable prices and on terms that adequately protect us;
- our employees taking excessive risks;
- the possibility that severe weather conditions, catastrophes, pandemics and similar events may adversely affect our business, results of operations and financial condition;

- the inability to manage our growth effectively;
- the intense competition for business in our industry;
- the effects of litigation having an adverse effect on our business;
- the failure to maintain effective internal controls in accordance with the Sarbanes-Oxley of 2002 (the "Sarbanes-Oxley Act"); and
- the other risks and uncertainties discussed in Part I, Item 1A of the Annual Report on Form 10-K for the year ended December 31, 2019.

Forward-looking statements speak only as of the date on which they are made. Except as expressly required under federal securities laws or the rules and regulations of the Securities and Exchange Commission ("SEC"), we do not assume any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. You should not place undue reliance on forward-looking statements. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

KINSALE CAPITAL GROUP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets (Unaudited)

	June 30, 2020	December 31, 2019
	(in thousands, except share and per share data)	
Assets		
Investments:		
Fixed-maturity securities available for sale, at fair value (amortized cost: $856,136 in 2020; $714,817 in 2019)	$ 893,364	$ 729,532
Equity securities, at fair value (cost: $96,178 in 2020 $64,245 in 2019)	107,905	78,294
Total investments	1,001,269	807,826
Cash and cash equivalents	62,976	100,408
Investment income due and accrued	6,174	4,743
Premiums receivable, net	50,866	34,483
Reinsurance recoverables	73,123	72,574
Ceded unearned premiums	19,399	16,118
Deferred policy acquisition costs, net of ceding commissions	28,942	23,564
Intangible assets	3,538	3,538
Deferred income tax asset, net	—	3,374
Other assets	43,061	23,922
Total assets	$ 1,289,348	$ 1,090,550
Liabilities and Stockholders' Equity		
Liabilities:		
Reserves for unpaid losses and loss adjustment expenses	$ 525,801	$ 460,058
Unearned premiums	229,599	187,374
Payable to reinsurers	14,407	7,151
Accounts payable and accrued expenses	9,936	12,366
Credit facility	33,107	16,744
Deferred income tax liability, net	61	—
Other liabilities	20,323	977
Total liabilities	833,234	684,670
Stockholders’ equity:		
Common stock, $0.01 par value, 400,000,000 shares authorized, 22,302,943 and 22,205,665 shares issued and outstanding at June 30, 2020 and December 31, 2019, respectively	223	222
Additional paid-in capital	230,265	229,229
Retained earnings	194,323	162,911
Accumulated other comprehensive income	31,303	13,518
Total stockholders’ equity	456,114	405,880
Total liabilities and stockholders’ equity	$ 1,289,348	$ 1,090,550

See accompanying notes to condensed consolidated financial statements.

KINSALE CAPITAL GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Income and Comprehensive Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in thousands, except per share data)			
Revenues:				
Gross written premiums	$ 134,091	$ 94,947	$ 258,127	$ 179,573
Ceded written premiums	(16,484)	(12,260)	(32,467)	(23,819)
Net written premiums	117,607	82,687	225,660	155,754
Change in unearned premiums	(20,650)	(16,600)	(38,942)	(28,176)
Net earned premiums	96,957	66,087	186,718	127,578
Net investment income	6,645	4,806	12,605	9,321
Change in the fair value of equity securities	13,839	1,909	(2,322)	7,804
Net realized investment gains (losses)	253	(235)	1,029	45
Other income	13	5	23	9
Total revenues	117,707	72,572	198,053	144,757
Expenses:				
Losses and loss adjustment expenses	58,304	39,579	112,037	73,311
Underwriting, acquisition and insurance expenses	22,961	16,437	44,544	32,053
Other expenses	—	21	—	57
Total expenses	81,265	56,037	156,581	105,421
Income before income taxes	36,442	16,535	41,472	39,336
Total income tax expense	6,180	2,768	6,124	6,849
Net income	30,262	13,767	35,348	32,487
Other comprehensive income:				
Change in unrealized gains on available-for-sale investments, net of taxes of $7,180 and $4,728 in 2020 and $1,743 and $3,544 in 2019	27,008	6,555	17,785	13,335
Total comprehensive income	$ 57,270	$ 20,322	$ 53,133	$ 45,822
Earnings per share:				
Basic	$ 1.37	$ 0.65	$ 1.60	$ 1.53
Diluted	$ 1.33	$ 0.63	$ 1.56	$ 1.49
Weighted-average shares outstanding:				
Basic	22,153	21,210	22,131	21,190
Diluted	22,707	21,832	22,694	21,803

See accompanying notes to condensed consolidated financial statements.

KINSALE CAPITAL GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	(in thousands)					
Balance at December 31, 2019	22,206	$ 222	$ 229,229	$ 162,911	$ 13,518	$ 405,880
Adoption of new accounting standard for credit losses, net	—	—	—	78	—	78
Issuance of common stock under stock-based compensation plan	48	1	701	—	—	702
Stock-based compensation expense	—	—	812	—	—	812
Dividends declared ($0.09 per share)	—	—	—	(2,001)	—	(2,001)
Other comprehensive loss, net of tax	—	—	—	—	(9,223)	(9,223)
Net income	—	—	—	5,086	—	5,086
Balance at March 31, 2020	22,254	223	230,742	166,074	4,295	401,334
Issuance of common stock under stock-based compensation plan	61	—	395	—	—	395
Stock-based compensation expense	—	—	931	—	—	931
Restricted shares withheld for taxes	(12)	—	(1,803)	—	—	(1,803)
Dividends declared ($0.09 per share)	—	—	—	(2,013)	—	(2,013)
Other comprehensive income, net of tax	—	—	—		27,008	27,008
Net income	—	—	—	30,262	—	30,262
Balance at June 30, 2020	22,303	$ 223	$ 230,265	$ 194,323	$ 31,303	$ 456,114
Balance at December 31, 2018	21,242	$ 212	$ 158,485	$ 106,545	$ (1,256)	$ 263,986
Issuance of common stock under stock-based compensation plan	43	1	597	—	—	598
Stock-based compensation expense	—	—	507	—	—	507
Dividends declared ($0.08 per share)	—	—	—	(1,702)	—	(1,702)
Other comprehensive income, net of tax	—	—	—	—	6,780	6,780
Net income	—	—	—	18,720	—	18,720
Balance at March 31, 2019	21,285	213	159,589	123,563	5,524	288,889
Issuance of common stock under stock-based compensation plan	78	1	393	—	—	394
Stock-based compensation expense	—	—	621	—	—	621
Restricted shares withheld for taxes	(7)	—	(617)	—	—	(617)
Dividends declared ($0.08 per share)	—	—	—	(1,702)	—	(1,702)
Other comprehensive income, net of tax	—	—	—	—	6,555	6,555
Net income	—	—	—	13,767	—	13,767
Balance at June 30, 2019	21,356	$ 214	$ 159,986	$ 135,628	$ 12,079	$ 307,907

See accompanying notes to condensed consolidated financial statements.

KINSALE CAPITAL GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
	2020	2019
	(in thousands)	
Operating activities:		
Net cash provided by operating activities	$ 132,587	$ 71,292
Investing activities:		
Purchase of property and equipment	(20,113)	(5,999)
Sale of property and equipment	4,999	—
Purchases – fixed-maturity securities	(231,112)	(115,356)
Purchases – equity securities	(31,985)	(3,593)
Sales – fixed-maturity securities	54,525	31,441
Sales – equity securities	—	2,869
Maturities and calls – fixed-maturity securities	42,079	25,699
Net cash used in investing activities	(181,607)	(64,939)
Financing activities:		
Proceeds from credit facility	16,300	—
Debt issuance costs	—	(284)
Payroll taxes withheld and remitted on share-based payments	(1,803)	(617)
Proceeds from stock options exercised	1,097	991
Dividends paid	(4,006)	(3,401)
Net cash provided by (used in) financing activities	11,588	(3,311)
Net change in cash and cash equivalents	(37,432)	3,042
Cash and cash equivalents at beginning of year	100,408	75,089
Cash and cash equivalents at end of period	$ 62,976	$ 78,131

See accompanying notes to condensed consolidated financial statements.

KINSALE CAPITAL GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Summary of significant accounting policies

Basis of presentation

The accompanying condensed consolidated financial statements and notes have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and do not contain all of the information and footnotes required by U.S. GAAP for complete financial statements. For a more complete description of Kinsale Capital Group, Inc. and its wholly owned subsidiaries' (the "Company") business and accounting policies, these condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements of the Company included in the Annual Report on Form 10-K for the year ended December 31, 2019. In the opinion of management, all adjustments necessary for a fair presentation of the condensed consolidated financial statements have been included. Such adjustments consist only of normal recurring items. All significant intercompany balances and transactions have been eliminated in consolidation. Interim results are not necessarily indicative of results of operations for the full year.

Use of estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management periodically reviews its estimates and assumptions.

Recently adopted accounting pronouncements

Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses (Topic 326)

On June 16, 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326)" to provide more useful information about the expected credit losses on financial instruments. The update requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected by means of an allowance for credit losses that runs through net income. Credit losses relating to available-for-sale debt securities must also be recorded through an allowance for credit losses. However, the amendments limit the amount of the allowance to the amount by which fair value is below amortized cost. The measurement of credit losses on available-for-sale securities is similar under previous GAAP, but the update requires the use of the allowance account through which amounts can be reversed, rather than through an irreversible write-down. The FASB has issued additional ASUs on Topic 326 that do not change the core principle of the guidance in ASU 2016-13 but clarify certain aspects of it.

Effective January 1, 2020, the Company adopted this ASU using the modified-retrospective approach and recorded a cumulative effect adjustment to beginning retained earnings. The adoption of this ASU resulted in the recognition of an allowance for credit loss related to the Company's reinsurance recoverables. However, since the Company enters into contracts with reinsurers that have A.M. Best ratings of "A" (Excellent) or better, the allowance was not material to the Company's consolidated financial statements.

ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract

On August 29, 2018, the FASB issued new guidance on a customer's accounting for implementation, set-up and other up-front costs incurred in a cloud computing arrangement hosted by the vendor. The new guidance requires an entity to determine the stage of a project that the implementation activity relates to and the nature of the associated costs in order to determine whether those costs should be expensed as incurred or capitalized. The new guidance also requires the entity to amortize the capitalized implementation costs as an expense over the term of the hosting arrangement. Effective January 1, 2020, the Company adopted ASU 2018-15 using a modified-retrospective approach. The adoption of ASU 2018-15 did not have a material impact on the Company's financial statements.

There are no other prospective accounting standards which, upon their effective date, would have a material impact on the Company's consolidated financial statements.

2. Investments

Available-for-sale investments

The following tables summarize the available-for-sale investments at June 30, 2020 and December 31, 2019:

	June 30, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. government agencies	$ 1,130	$ —	$ (17)	$ 1,113
Obligations of states, municipalities and political subdivisions	178,620	11,939	(15)	190,544
Corporate and other securities	277,485	17,968	(1,120)	294,333
Commercial mortgage and asset-backed securities	261,734	6,916	(2,763)	265,887
Residential mortgage-backed securities	137,167	4,500	(180)	141,487
Total available-for-sale investments	$ 856,136	$ 41,323	$ (4,095)	$ 893,364

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. government agencies	$ 110	$ 2	$ —	$ 112
Obligations of states, municipalities and political subdivisions	166,312	7,542	(961)	172,893
Corporate and other securities	180,287	4,736	(255)	184,768
Commercial mortgage and asset-backed securities	195,750	2,930	(710)	197,970
Residential mortgage-backed securities	172,358	1,819	(388)	173,789
Total available-for-sale investments	$ 714,817	$ 17,029	$ (2,314)	$ 729,532

Available-for-sale securities in a loss position

The Company regularly reviews all its available-for-sale investments with unrealized losses to assess whether the decline in the fair value is deemed to be a credit loss. The Company considers a number of factors in completing its review of credit losses, including the extent to which a security's fair value has been below cost and the financial condition of an issuer. In addition to specific issuer information, the Company also evaluates the current market and interest rate environment. Generally, a change in a security’s value caused by a change in the market or interest rate environment does not constitute a credit loss.

For fixed-maturity securities, the Company also considers whether it intends to sell the security or if it is more likely than not that it will be required to sell the security before recovery and the ability to recover all amounts outstanding when contractually due. When assessing whether it intends to sell a fixed-maturity security or if it is likely to be required to sell a fixed-maturity security before recovery of its amortized cost, the Company evaluates facts and circumstances including, but not limited to, decisions to reposition the investment portfolio, potential sales of investments to meet cash flow needs and potential sales of investments to capitalize on favorable pricing.

For fixed-maturity securities where a decline in fair value is below the amortized cost basis and the Company intends to sell the security, or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost, an impairment is recognized in net income based on the fair value of the security at the time of assessment, resulting in a new cost basis for the security. For fixed-maturity securities that the Company has the intent and ability to hold, the Company compares the estimated present value of the cash flows expected to be collected to the amortized cost of the security. The extent to which the estimated present value of the cash flows expected to be collected is less than the amortized cost of the security represents the credit-related portion of the impairment, which is recognized in net income through an allowance for credit losses. Any remaining decline in fair value represents the noncredit portion of the impairment, which is recognized in other comprehensive income. Beginning on January 1, 2020, credit losses are recognized through an allowance account. See Note 1 - Recently adopted accounting pronouncements - *ASU 2016-13*, *Financial Instruments – Credit Losses (Topic 326)* for additional information.

The Company reports investment income due and accrued separately from fixed-maturity securities, available for sale, and has elected not to measure an allowance for credit losses for investment income due and accrued. Investment income due and accrued is written off through net realized gains (losses) on investments at the time the issuer of the bond defaults or is expected to default on payments.

The following tables summarize gross unrealized losses and estimated fair value for available-for-sale investments by length of time that the securities have continuously been in an unrealized loss position:

	June 30, 2020					
	Less than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(in thousands)					
Fixed maturities:						
U.S. Treasury securities and obligations of U.S. government agencies	$ 573	$ (17)	$ —	$ —	$ 573	$ (17)
Obligations of states, municipalities and political subdivisions	2,007	(15)	—	—	2,007	(15)
Corporate and other securities	32,899	(1,120)	—	—	32,899	(1,120)
Commercial mortgage and asset-backed securities	86,355	(1,912)	23,256	(851)	109,611	(2,763)
Residential mortgage-backed securities	12,716	(162)	276	(18)	12,992	(180)
Total available-for-sale investments	$ 134,550	$ (3,226)	$ 23,532	$ (869)	$ 158,082	$ (4,095)

At June 30, 2020, the Company held 89 fixed-maturity securities in an unrealized loss position with a total estimated fair value of $158.1 million and gross unrealized losses of $4.1 million. Of these securities, 12 were in a continuous unrealized loss position for greater than one year. As discussed above, the Company regularly reviews all fixed-maturity securities within its investment portfolio to determine whether a credit loss has occurred. Based on the Company's review as of June 30, 2020, unrealized losses were caused by interest rate changes or other market factors and were not credit-specific issues. At June 30, 2020, 82.6% of the Company’s fixed-maturity securities were rated "A-" or better and all of the Company’s fixed-maturity securities made expected coupon payments under the contractual terms of the securities. For the six months ended June 30, 2020, the Company concluded that there were no credit losses from fixed-maturity securities with unrealized losses.

	December 31, 2019					
	Less than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(in thousands)					
Fixed maturities:						
Obligations of states, municipalities and political subdivisions	$ 28,997	$ (961)	$ 254	$ —	$ 29,251	$ (961)
Corporate and other securities	22,409	(251)	1,509	(4)	23,918	(255)
Commercial mortgage and asset-backed securities	37,723	(303)	46,623	(407)	84,346	(710)
Residential mortgage-backed securities	36,986	(148)	24,815	(240)	61,801	(388)
Total available-for-sale investments	$ 126,115	$ (1,663)	$ 73,201	$ (651)	$ 199,316	$ (2,314)

Contractual maturities of available-for-sale fixed-maturity securities

The amortized cost and estimated fair value of available-for-sale fixed-maturity securities at June 30, 2020 are summarized, by contractual maturity, as follows:

	June 30, 2020	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Due in one year or less	$ 11,926	$ 12,047
Due after one year through five years	114,967	122,401
Due after five years through ten years	142,571	152,692
Due after ten years	187,771	198,850
Commercial mortgage and asset-backed securities	261,734	265,887
Residential mortgage-backed securities	137,167	141,487
Total fixed-maturity securities	$ 856,136	$ 893,364

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties, and the lenders may have the right to put the securities back to the borrower.

Net investment income

The following table presents the components of net investment income for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in thousands)			
Interest:				
Taxable bonds	$ 5,259	$ 3,476	$ 9,870	$ 6,543
Tax exempt municipal bonds	908	888	1,823	1,896
Cash equivalents and short-term investments	11	156	261	401
Dividends on equity securities	879	566	1,454	1,087
Gross investment income	7,057	5,086	13,408	9,927
Investment expenses	(412)	(280)	(803)	(606)
Net investment income	$ 6,645	$ 4,806	$ 12,605	$ 9,321

Realized investment gains and losses

The following table presents realized investment gains and losses for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in thousands)			
Fixed-maturity securities:				
Realized gains	$ 320	$ 25	$ 1,107	$ 396
Realized losses	(67)	—	(90)	(79)
Net realized gains from fixed-maturity securities	253	25	1,017	317
Equity securities:				
Realized gains	—	30	—	34
Realized losses	—	(290)	—	(306)
Net realized losses from equity securities	—	(260)	—	(272)
Realized gains from the sales of short-term investments	—	—	12	—
Net realized investment gains (losses)	$ 253	$ (235)	$ 1,029	$ 45

Change in net unrealized gains on fixed-maturity securities

For the three and six months ended June 30, 2020, the changes in net unrealized gains for fixed-maturity securities were $34.2 million and $22.5 million, respectively. For the three and six months ended June 30, 2019, the changes in net unrealized gains for fixed-maturity securities were $8.3 million and $16.9 million, respectively.

Insurance – statutory deposits

The Company had invested assets with a carrying value of $6.9 million on deposit with state regulatory authorities at both June 30, 2020 and December 31, 2019.

Payable for investments purchased

The Company recorded a payable for investments purchased, not yet settled, of $7.3 million at June 30, 2020. The payable balance was included in the "other liabilities" line item of the consolidated balance sheet and treated as a non-cash transaction for purposes of cash flow presentation.

3. Fair value measurements

Fair value is estimated for each class of financial instrument for which it is practical to estimate fair value. Fair value is defined as the price in the principal market that would be received in exchange for an asset or a liability to facilitate an orderly transaction between market participants on the measurement date. Market participants are assumed to be independent, knowledgeable, able and willing to transact an exchange and not acting under duress. Fair value hierarchy disclosures are based on the quality of inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Adjustments to transaction prices or quoted market prices may be required in illiquid or disorderly markets in order to estimate fair value.

The three levels of the fair value hierarchy are defined as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.

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.

Level 3 - Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

Fair values of the Company's investment portfolio are estimated using unadjusted prices obtained by its investment manager from third party pricing services, where available. For securities where the Company is unable to obtain fair values from a pricing service or broker, fair values are estimated using information obtained from the Company's investment manager. Management performs several procedures to ascertain the reasonableness of investment values included in the condensed consolidated financial statements including 1) obtaining and reviewing internal control reports from the Company's investment manager that obtains fair values from third party pricing services, 2) discussing with the Company's investment manager its process for reviewing and validating pricing obtained from outside pricing services and 3) reviewing the security pricing received from the Company's investment manager and monitoring changes in unrealized gains and losses. The Company has evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs.

The following tables present the balances of assets measured at fair value on a recurring basis as of June 30, 2020 and December 31, 2019, by level within the fair value hierarchy.

	June 30, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
	(in thousands)			
Assets				
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. government agencies	$ 1,113	$ —	$ —	$ 1,113
Obligations of states, municipalities and political subdivisions	—	190,544	—	190,544
Corporate and other securities	—	294,333	—	294,333
Commercial mortgage and asset-backed securities	—	265,887	—	265,887
Residential mortgage-backed securities	—	141,487	—	141,487
Total fixed-maturity securities	1,113	892,251	—	893,364
Equity securities:				
Exchange traded funds	79,818	—	—	79,818
Nonredeemable preferred stock	—	28,087	—	28,087
Total equity securities	79,818	28,087	—	107,905
Total	$ 80,931	$ 920,338	$ —	$ 1,001,269

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets				
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. government agencies	$ 112	$ —	$ —	$ 112
Obligations of states, municipalities and political subdivisions	—	172,893	—	172,893
Corporate and other securities	—	184,768	—	184,768
Commercial mortgage and asset-backed securities	—	197,970	—	197,970
Residential mortgage-backed securities	—	173,789	—	173,789
Total fixed-maturity securities	112	729,420	—	729,532
Equity securities:				
Exchange traded funds	54,463	—	—	54,463
Nonredeemable preferred stock	—	23,831	—	23,831
Total equity securities	54,463	23,831	—	78,294
Total	$ 54,575	$ 753,251	$ —	$ 807,826

There were no assets or liabilities measured at fair value on a nonrecurring basis as of June 30, 2020 or December 31, 2019.

The carrying value of cash equivalents approximates its fair value at June 30, 2020 and December 31, 2019, due to the short-term maturities of these assets. In addition, the estimated fair value of the Credit Facility approximated its carrying value as of June 30, 2020 and December 31, 2019. See Note 12 for further information regarding the Credit Facility.

4. Deferred policy acquisition costs

The following table presents the amounts of policy acquisition costs deferred and amortized for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in thousands)			
Balance, beginning of period	$ 26,005	$ 16,314	$ 23,564	$ 14,801
Policy acquisition costs deferred:				
Direct commissions	19,496	13,880	37,574	26,243
Ceding commissions	(3,891)	(3,258)	(7,763)	(6,514)
Other underwriting and policy acquisition costs	1,282	849	2,469	1,814
Policy acquisition costs deferred	16,887	11,471	32,280	21,543
Amortization of net policy acquisition costs	(13,950)	(9,133)	(26,902)	(17,692)
Balance, end of period	$ 28,942	$ 18,652	$ 28,942	$ 18,652

Amortization of net policy acquisition costs is included in the line item "Underwriting, acquisition and insurance expenses" in the accompanying consolidated statements of income and comprehensive income.

5. Property and equipment, net

Property and equipment are included in "other assets" in the accompanying consolidated balance sheets and consists of the following:

	June 30, 2020	December 31, 2019
	(in thousands)	
Equipment	$ 2,444	$ 2,353
Software	3,733	2,356
Furniture and fixtures	1,699	1,025
Leasehold improvements	984	984
Construction in progress - corporate headquarters	37,803	19,789
	46,663	26,507
Accumulated depreciation	(4,273)	(3,873)
Total property and equipment, net	$ 42,390	$ 22,634

Construction in progress includes the purchased land and capitalized expenses related to the construction of the new corporate headquarters' building and parking deck. Construction is expected to be completed in the third quarter of 2020.

6. Underwriting, acquisition and insurance expenses

Underwriting, acquisition and insurance expenses for the three and six months ended June 30, 2020 and 2019 consist of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in thousands)			
Underwriting, acquisition and insurance expenses incurred:				
Direct commissions	$ 16,341	$ 11,387	$ 31,483	$ 22,061
Ceding commissions	(3,463)	(3,114)	(6,646)	(6,052)
Other operating expenses	10,083	8,164	19,707	16,044
Total	$ 22,961	$ 16,437	$ 44,544	$ 32,053

Other operating expenses within underwriting, acquisition and insurance expenses include salaries, bonus and employee benefits expenses of $9.2 million and $7.1 million for the three months ended June 30, 2020 and 2019, respectively. Salaries, bonuses, and employee benefit expenses were $18.0 million and $13.9 million for the six months ended June 30, 2020 and 2019, respectively.

7. Stock-based compensation

On July 27, 2016, the Kinsale Capital Group, Inc. 2016 Omnibus Incentive Plan (the "2016 Incentive Plan") became effective. The 2016 Incentive Plan, which is administered by the Compensation, Nominating and Corporate Governance Committee of the Company's Board of Directors, provides for grants of stock options, restricted stock, restricted stock units and other stock-based awards to officers, employees, directors, independent contractors and consultants. The number of shares of common stock available for issuance under the 2016 Incentive Plan may not exceed 2,073,832.

The total compensation cost that has been charged against income for share-based compensation arrangements was $1.7 million and $1.1 million for the six months ended June 30, 2020 and 2019, respectively.

Restricted Stock Awards

During the six months ended June 30, 2020, the Company granted restricted stock awards under the 2016 Incentive Plan. The restricted stock awards were valued on the date of grant and will vest over a period of 1 to 4 years. The fair value of restricted stock awards was determined based on the closing trading price of the Company’s shares on the grant date or, if no shares were traded on the grant date, the last preceding date for which there was a sale of shares. Except for restrictions placed on the transferability of restricted stock, holders of unvested restricted stock have full stockholder’s rights, including voting rights and the right to receive dividends. Unvested shares of restricted stock awards and accrued dividends, if any, are forfeited upon the termination of service to or employment with the Company.

A summary of all restricted stock activity under the 2016 Incentive Plan for the six months ended June 30, 2020 is as follows:

	For the Six Months Ended June 30, 2020	
	Number of Shares	Weighted Average Grant Date Fair Value per Share
Non-vested outstanding at the beginning of the period	122,723	$ 67.01
Granted	41,217	$ 145.46
Vested	(41,010)	$ 63.86
Forfeited	(559)	$ 68.13
Non-vested outstanding at the end of the period	122,371	$ 94.48

Employees surrender shares to pay for withholding tax obligations resulting from any vesting of restricted stock awards. During the six months ended June 30, 2020, shares withheld for taxes in connection with the vesting of restricted stock awards totaled 11,966.

The weighted average grant-date fair value of the Company's restricted stock awards granted during the six months ended June 30, 2020 and 2019 was $145.46 and $80.59, respectively. The fair value of restricted stock awards that vested during the six months ended June 30, 2020 and 2019 was $5.8 million and $2.1 million, respectively. As of June 30, 2020, the Company had $11.0 million of total unrecognized stock-based compensation expense expected to be charged to earnings over a weighted-average period of 3.2 years.

Stock Options

On July 27, 2016, the Board of Directors approved, and the Company granted, 1,036,916 stock options with an exercise price equal to the Initial Public Offering price of $16.00 per share and a weighted-average grant-date fair value of $2.71 per share. The options have a maximum contractual term of 10 years and vest in 4 equal annual installments following the date of the grant.

The value of the options granted was estimated at the date of grant using the Black-Scholes pricing model using the following assumptions:

Risk-free rate of return	1.26 %
Dividend yield	1.25 %
Expected share price volatility[(1)]	18.50 %
Expected life in years[(2)]	6.3 years

(1) Expected volatility was based on the Company’s competitors within the industry.

(2) Expected life was calculated using the simplified method, which was an average of the contractual term of the option and its ordinary vesting period, as the Company did not have sufficient historical data for determining the expected term of our stock option awards.

A summary of option activity as of June 30, 2020, and changes during the period then ended is presented below:

	Number of Shares	Weighted-average exercise price	Weighted-average remaining years of contractual term	Aggregate intrinsic value (in thousands)
Outstanding at January 1, 2020	614,345	$ 16.00		
Granted	—	—		
Forfeited	(234)	16.00		
Exercised	(68,586)	16.00		
Outstanding at June 30, 2020	545,525	$ 16.00	6.1	$ 75,943
Exercisable at June 30, 2020	325,028	$ 16.00	6.1	$ 45,247

The total intrinsic value of options exercised was $7.6 million and $3.4 million during the six months ended June 30, 2020 and 2019, respectively. Since stock options are fully vested on July 27, 2020, the amount of unrecognized compensation is not material at June 30, 2020.

8. Earnings per share

The following represents a reconciliation of the numerator and denominator of the basic and diluted earnings per share computations contained in the consolidated financial statements:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in thousands, except per share data)			
Net income	$ 30,262	$ 13,767	$ 35,348	$ 32,487
Weighted average common shares outstanding - basic	22,153	21,210	22,131	21,190
Effect of potential dilutive securities:				
Conversion of stock options	490	583	500	579
Conversion of restricted stock	64	39	63	34
Weighted average common shares outstanding - diluted	22,707	21,832	22,694	21,803
Earnings per common share:				
Basic	$ 1.37	$ 0.65	$ 1.60	$ 1.53
Diluted	$ 1.33	$ 0.63	$ 1.56	$ 1.49

There were approximately 37 thousand anti-dilutive stock awards for the three and six months ended June 30, 2020 and approximately 55 thousand anti-dilutive stock awards for the three and six months ended June 30, 2019.

9. Income taxes

The Company uses the estimated annual effective tax rate method for calculating its tax provision in interim periods, which represents the Company's best estimate of the effective tax rate expected for the full year. The estimated annual effective tax rate typically differs from the U.S. statutory tax rate primarily as a result of tax-exempt investment income and any discrete items recognized during the period. The Company's effective tax rates were 14.8% and 17.4% for the six months ended June 30, 2020 and 2019, respectively. The effective tax rates were lower than the federal statutory rate of 21% due to the tax benefits from stock-based compensation and from income generated by certain tax-advantaged investments.

The Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was enacted on March 27, 2020. The purpose of the CARES Act is to provide emergency assistance and health care response for individuals, families, and businesses affected by the 2020 coronavirus pandemic. The CARES Act builds on and clarifies a number of changes in corporate tax law implemented by the Tax Cuts and Jobs Act. The Company does not expect that the CARES Act will have a significant impact on its financial statements.

10. Reserves for unpaid losses and loss adjustment expenses

The following table presents a reconciliation of consolidated beginning and ending reserves for unpaid losses and loss adjustment expenses:

	June 30	
	2020	**2019**
	(in thousands)	
Gross reserves for unpaid losses and loss adjustment expenses, beginning of year	$ 460,058	$ 369,152
Less: reinsurance recoverable on unpaid losses	69,792	55,389
Adoption of new accounting standard for credit losses	(282)	—
Net reserves for unpaid losses and loss adjustment expenses, beginning of year	390,548	313,763
Incurred losses and loss adjustment expenses:		
Current year	118,662	81,127
Prior years	(6,625)	(7,816)
Total net losses and loss adjustment expenses incurred	112,037	73,311
Payments:		
Current year	3,245	5,530
Prior years	42,259	36,100
Total payments	45,504	41,630
Net reserves for unpaid losses and loss adjustment expenses, end of period	457,081	345,444
Reinsurance recoverable on unpaid losses	68,720	61,989
Gross reserves for unpaid losses and loss adjustment expenses, end of period	$ 525,801	$ 407,433

During the six months ended June 30, 2020, the reserves for unpaid losses and loss adjustment expenses held at December 31, 2019 developed favorably by $6.6 million. The favorable development was primarily attributable to the 2019 accident year of $5.0 million, which resulted from reported losses emerging at a lower level than expected across most statutory lines of business.

During the six months ended June 30, 2019, the reserves for unpaid losses and loss adjustment expenses held at December 31, 2018 developed favorably by $7.8 million. The favorable development was primarily attributable to the 2017 through 2018 accident years of $14.1 million, which mostly resulted from reported losses emerging at a lower level than expected across most statutory lines of business. This favorable development was offset in part by adverse development from the 2011 through 2016 accident years of $6.2 million, which primarily resulted from higher incurred but not yet reported ("IBNR") losses to provide for uncertainty associated with the emergence of reported losses over a longer period of time.

11. Reinsurance

The following table summarizes the effect of reinsurance on premiums written and earned for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in thousands)			
Premiums written:				
Direct	$ 134,091	$ 94,885	$ 258,127	$ 179,448
Assumed	—	62	—	125
Ceded	(16,484)	(12,260)	(32,467)	(23,819)
Net written	$ 117,607	$ 82,687	$ 225,660	$ 155,754
Premiums earned:				
Direct	$ 112,149	$ 77,920	$ 215,883	$ 149,998
Assumed	6	16	21	73
Ceded	(15,198)	(11,849)	(29,186)	(22,493)
Net earned	$ 96,957	$ 66,087	$ 186,718	$ 127,578

The following table summarizes ceded losses and loss adjustment expenses for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in thousands)			
Ceded incurred losses and loss adjustment expenses	$ 4,453	$ 9,440	$ 10,905	$ 13,745

The following table presents reinsurance recoverables on paid and unpaid losses as of June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
	(in thousands)	
Reinsurance recoverables on paid losses	$ 4,403	$ 2,782
Reinsurance recoverables on unpaid losses	68,720	69,792
Reinsurance recoverables	$ 73,123	$ 72,574

12. Credit Agreement

On May 28, 2019, the Company entered into a Credit Agreement (the “Credit Agreement”) that provided the Company with a $50.0 million senior unsecured revolving credit facility (the “Credit Facility”) and an uncommitted accordion feature that permits the Company to increase the commitments by an additional $30.0 million. The Credit Facility has a maturity of May 28, 2024. Borrowings under the Credit Facility will be used to fund construction of the Company’s new headquarters and may also be used for working capital and general corporate purposes.

Loans under the Credit Facility may be subject to varying rates of interest depending on whether the loan is a Eurodollar loan or an alternate base rate (ABR) loan, at the Company's election. Eurodollar loans bear an interest rate per annum equal to adjusted LIBOR for the applicable interest period plus a margin of 1.75%. ABR loans bear an interest rate per annum equal to (a) the higher of the prime rate, the New York Federal Reserve Board Rate plus 0.50% or the one-month adjusted LIBOR plus 1%, plus (b) the applicable margin of 0.75%. During the six months ended June 30, 2020, the Company drew down $16.3 million on its Credit Facility. As of June 30, 2020, there was $33.1 million outstanding under the Credit Facility, net of debt issuance cost of $0.5 million, with a weighted average interest rate of 2.33%.

The Credit Agreement also contains representations and warranties and affirmative and negative covenants customary for financings of this type, as well as customary events of default provisions. As of June 30, 2020, the Company was in compliance with all of its financial covenants under the Credit Facility.

13. Other comprehensive income

The following table summarizes the components of other comprehensive income for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in thousands)			
Unrealized gains on fixed-maturity securities arising during the period, before income taxes	$ 34,323	$ 8,323	$ 23,412	$ 17,196
Income taxes	(7,208)	(1,748)	(4,917)	(3,611)
Unrealized gains arising during the period, net of income taxes	27,115	6,575	18,495	13,585
Less reclassification adjustment:				
Net realized gains on fixed-maturity securities, before income taxes	135	25	899	317
Income taxes	(28)	(5)	(189)	(67)
Reclassification adjustment included in net income, net of income taxes	107	20	710	250
Other comprehensive income	$ 27,008	$ 6,555	$ 17,785	$ 13,335

The sale of an available-for-sale fixed-maturity security results in amounts being reclassified from accumulated other comprehensive income to realized gains or losses in current period earnings. The related tax effect of the reclassification adjustment is recorded in income tax expense in current period earnings. See Note 2 for additional information.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion and analysis below includes certain forward-looking statements that are subject to risks, uncertainties and other factors described in "Risk Factors" in this Quarterly Report on Form 10-Q and in the Annual Report on Form 10-K for the year ended December 31, 2019. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors.

The results of operations for the three and six months ended June 30, 2020 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2020, or for any other future period. The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Part I, Item 1 of this Quarterly Report, and in conjunction with our audited consolidated financial statements and the notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2019.

References to the "Company," "Kinsale," "we," "us," and "our" are to Kinsale Capital Group, Inc. and its subsidiaries, unless the context otherwise requires.

Overview

Founded in 2009, Kinsale is a specialty insurance company. Kinsale focuses exclusively on the excess and surplus lines ("E&S") market in the U.S., where we use our underwriting expertise to write coverages for hard-to-place small business risks and personal lines risks. We market these insurance products in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, primarily through a network of independent insurance brokers.

We have one reportable segment, our Excess and Surplus Lines Insurance segment, which offers property and casualty ("P&C") insurance products through the E&S market. For the first six months of 2020, the percentage breakdown of our gross written premiums was 87% casualty and 13% property. Our underwriting divisions include construction, small business, excess casualty, commercial property, allied health, product liability, life sciences, general casualty, professional liability, management liability, energy, health care, environmental, inland marine, commercial insurance and public entity. We also write a small amount of homeowners insurance in our personal lines division, which in aggregate represented 4% of our gross written premiums in the first six months of 2020, and is included in our property business.

COVID-19

We are closely monitoring the impact of the COVID-19 pandemic and related economic effects on all aspects of our business, including how it will impact premium volume, losses and the fair value of our investment portfolio.

To date, management has not seen a significant decrease in the growth rate of its gross written premiums since the beginning of the COVID-19 pandemic and related economic downturn. Over the past year, including a time period preceding COVID-19, the E&S segment of the P&C market has been experiencing rapid growth due to dislocation in the overall property and casualty market and management expects premium growth to continue throughout the remainder of 2020.

With respect to reported claims, Kinsale does not write lines of business with heightened exposure to COVID-19 related claims. Specifically, Kinsale does not write event cancellation, mortgage insurance, trade credit or surety, workers' compensation or reinsurance business. Lines of business written by Kinsale that could be subject to COVID-19 related claims include general liability, management liability, healthcare-related professional liability and commercial property. In each case, policy terms and conditions would be expected to preclude coverage for virus-related claims. Although management cannot definitively determine the ultimate impact of COVID-19 and related economic conditions at this time, management does not currently expect a material adverse effect on Kinsale's loss ratios due to COVID-19 related claims.

With respect to our investment portfolio, we seek to hold a high-quality, diversified portfolio of investments. During the first quarter of 2020, we experienced a significant decline in the fair value of our investment portfolio due to disruption in the global financial markets associated with COVID-19. During the second quarter of 2020, the fair values of our investment portfolio rebounded sharply, gaining back a significant portion of the decline in fair value. However, during economic downturns, certain investments may default or become impaired due to deterioration in the financial condition or due to deterioration in the financial condition of an insurer that guarantees an issuer's payments on such investments. Given the conservative nature of our investment portfolio, we do not expect a material adverse impact on the value of our investment portfolio or a long-term negative impact on our financial condition, results of operations or cash flows as it relates to COVID-19.

Components of our results of operations

Gross written premiums

Gross written premiums are the amounts received or to be received for insurance policies written or assumed by us during a specific period of time without reduction for policy acquisition costs, reinsurance costs or other deductions. The volume of our gross written premiums in any given period is generally influenced by:

- New business submissions;
- Conversion of new business submissions into policies;
- Renewals of existing policies; and
- Average size and premium rate of bound policies.

We earn insurance premiums on a pro rata basis over the term of the policy. Our insurance policies generally have a term of one year. Net earned premiums represent the earned portion of our gross written premiums, less that portion of our gross written premiums that is ceded to third-party reinsurers under our reinsurance agreements.

Ceded written premiums

Ceded written premiums are the amount of gross written premiums ceded to reinsurers. We enter into reinsurance contracts to limit our exposure to potential large losses. Ceded written premiums are earned over the reinsurance contract period in proportion to the period of risk covered. The volume of our ceded written premiums is impacted by the level of our gross written premiums and any decision we make to increase or decrease retention levels.

Losses and loss adjustment expenses

Losses and loss adjustment expenses are a function of the amount and type of insurance contracts we write and the loss experience associated with the underlying coverage. In general, our losses and loss adjustment expenses are affected by:

- Frequency of claims associated with the particular types of insurance contracts that we write;
- Trends in the average size of losses incurred on a particular type of business;
- Mix of business written by us;
- Changes in the legal or regulatory environment related to the business we write;

- Trends in legal defense costs;
- Wage inflation; and
- Inflation in medical costs.

Losses and loss adjustment expenses are based on an actuarial analysis of the estimated losses, including losses incurred during the period and changes in estimates from prior periods. Losses and loss adjustment expenses may be paid out over a period of years.

Underwriting, acquisition and insurance expenses

Underwriting, acquisition and insurance expenses include policy acquisition costs and other underwriting expenses. Policy acquisition costs are principally comprised of the commissions we pay our brokers, net of ceding commissions we receive on business ceded under certain reinsurance contracts. Policy acquisition costs also include underwriting expenses that are directly related to the successful acquisition of those policies which are deferred. The amortization of policy acquisition costs is charged to expense in proportion to premium earned over the policy life.

Other underwriting expenses represent the general and administrative expenses of our insurance business such as employment costs, telecommunication and technology costs, and legal and auditing fees.

Net investment income

Net investment income is an important component of our results of operations. We earn investment income on our portfolio of cash and invested assets. Our cash and invested assets are primarily comprised of fixed-maturity securities, and may also include cash equivalents, equity securities and short-term investments. The principal factors that influence net investment income are the size of our investment portfolio and the yield on that portfolio. As measured by amortized cost (which excludes changes in fair value), the size of our investment portfolio is mainly a function of our invested equity capital combined with premiums we receive from our insureds less payments on policyholder claims.

Change in fair value of equity securities

Change in fair value of equity securities represents the increase or decrease in the fair value of equity securities held during the period.

Net realized gains (losses) on investments

Net realized gains (losses) on investments are a function of the difference between the amount received by us on the sale of a security and the security's amortized cost, as well as any credit impairments recognized in earnings.

Income tax expense

Currently all of our income tax expense relates to federal income taxes. Our insurance subsidiary, Kinsale Insurance Company, is not subject to income taxes in the states in which it operates; however, our non-insurance subsidiaries are subject to state income taxes, but have not generated any taxable income to date. The amount of income tax expense or benefit recorded in future periods will depend on the jurisdictions in which we operate and the tax laws and regulations in effect.

Key metrics

We discuss certain key metrics, described below, which we believe provide useful information about our business and the operational factors underlying our financial performance.

Underwriting income is a non-GAAP financial measure. We define underwriting income as net income, excluding net investment income, net change in the fair value of equity securities, net realized gains and losses on investments, other income, other expenses and income tax expense. See "—Reconciliation of non-GAAP financial measures" for a reconciliation of net income in accordance with GAAP to underwriting income.

Net operating earnings is a non-GAAP financial measure. We define net operating earnings as net income excluding the net change in the fair value of equity securities, after taxes, and net realized gains and losses on investments, after taxes. See "—Reconciliation of non-GAAP financial measures" for a reconciliation of net income in accordance with GAAP to net operating earnings.

Loss ratio, expressed as a percentage, is the ratio of losses and loss adjustment expenses to net earned premiums.

Expense ratio, expressed as a percentage, is the ratio of underwriting, acquisition and insurance expenses to net earned premiums.

Combined ratio is the sum of the loss ratio and the expense ratio. A combined ratio under 100% indicates an underwriting profit. A combined ratio over 100% indicates an underwriting loss.

Return on equity is net income expressed on an annualized basis as a percentage of average beginning and ending total stockholders' equity during the period.

Operating return on equity is a non-GAAP financial measure. We define operating return on equity as net operating earnings expressed as a percentage of average stockholders' equity during the period. See "—Reconciliation of non-GAAP financial measures" for a reconciliation of net income in accordance with GAAP to net operating earnings.

Net retention ratio is the ratio of net written premiums to gross written premiums.

Gross investment return is investment income from fixed-maturity and equity securities, before any deductions for fees and expenses, expressed as a percentage of average beginning and ending balances of those investments during the period.

Three months ended June 30, 2020 compared to three months ended June 30, 2019

The following table summarizes our results of operations for the three months ended June 30, 2020 and 2019:

	Three Months Ended June 30,			
($ in thousands)	**2020**	**2019**	**Change**	**% Change**
Gross written premiums	$ 134,091	$ 94,947	$ 39,144	41.2 %
Ceded written premiums	(16,484)	(12,260)	(4,224)	34.5 %
Net written premiums	$ 117,607	$ 82,687	$ 34,920	42.2 %
Net earned premiums	$ 96,957	$ 66,087	$ 30,870	46.7 %
Losses and loss adjustment expenses	58,304	39,579	18,725	47.3 %
Underwriting, acquisition and insurance expenses	22,961	16,437	6,524	39.7 %
Underwriting income [(1)]	15,692	10,071	5,621	55.8 %
Net investment income	6,645	4,806	1,839	38.3 %
Change in the fair value of equity securities	13,839	1,909	11,930	NM
Net realized gains (losses) on investments	253	(235)	488	NM
Other income (expense), net	13	(16)	29	(181.3)%
Income before taxes	36,442	16,535	19,907	120.4 %
Income tax expense	6,180	2,768	3,412	123.3 %
Net income	$ 30,262	$ 13,767	$ 16,495	119.8 %
Net operating earnings [(2)]	$ 19,129	$ 12,445	$ 6,684	53.7 %
Loss ratio	60.1 %	59.9 %		
Expense ratio	23.7 %	24.9 %		
Combined ratio	83.8 %	84.8 %		
Annualized return on equity	28.2 %	18.5 %		
Annualized operating return on equity[(2)]	17.8 %	16.7 %		

NM - Percentage change not meaningful.

[(1)] Underwriting income is a non-GAAP financial measure. See "—Reconciliation of non-GAAP financial measures" for a reconciliation of net income in accordance with GAAP to underwriting income.

[(2)] Net operating earnings and operating return on equity are non-GAAP financial measures. Net operating earnings is defined as net income excluding the effects of the net change in the fair value of equity securities, after taxes, and net realized gains and losses on investments, after taxes. Annualized operating return on equity is defined as net operating earnings expressed on an annualized basis as a percentage of stockholders' equity during the period. See "—Reconciliation of non-GAAP financial measures" for a reconciliation of net income in accordance with GAAP to net operating earnings.

Net income was $30.3 million for the three months ended June 30, 2020 compared to $13.8 million for the three months ended June 30, 2019, an increase of 119.8%. The increase in net income for the second quarter of 2020 over the second quarter of 2019 was due to higher underwriting income, resulting from favorable E&S market conditions and strong growth in broker submissions, and higher unrealized gains on our equity investment portfolio as fair values on equity securities rebounded sharply during the second quarter of 2020.

Underwriting income was $15.7 million for the three months ended June 30, 2020 compared to $10.1 million for the three months ended June 30, 2019, an increase of 55.8%. The corresponding combined ratios were 83.8% for the three months ended June 30, 2020 compared to 84.8% for the three months ended June 30, 2019. The increase in our underwriting income in the second quarter of 2020 compared to the second quarter of 2019, was largely due to premium growth quarter over quarter and higher favorable development on loss reserves from prior accident years.

Premiums

Our gross written premiums were $134.1 million for the three months ended June 30, 2020 compared to $94.9 million for the three months ended June 30, 2019, an increase of $39.1 million, or 41.2%. The increase in gross written premiums for the second quarter of 2020 over the same period last year was due to higher submission activity from brokers and higher rates on bound accounts, resulting from favorable market conditions. The average premium on a policy written was approximately $8,500 in the second quarter of 2020 compared to approximately $7,600 in the second quarter of 2019. Excluding our personal lines insurance, which has a relatively low premium per policy written, the average premium on a policy written was approximately $11,400 in the second quarter of 2020 compared to $10,500 in the second quarter of 2019.

Net written premiums increased by $34.9 million, or 42.2%, to $117.6 million for the three months ended June 30, 2020 from $82.7 million for the three months ended June 30, 2019. The increase in net written premiums for the second quarter of 2020 compared to the same period last year was primarily due to higher gross written premiums and higher retention of gross written premiums. The net retention ratio was 87.7% for the three months ended June 30, 2020 compared to 87.1% for the three months ended June 30, 2019. The increase in the net retention ratio was largely due to higher retention levels under the reinsurance treaties effective with the June 1, 2019 contract renewal, as well as the property catastrophe reinsurance treaty renewal effective June 1, 2020.

Net earned premiums increased by $30.9 million, or 46.7%, to $97.0 million for the three months ended June 30, 2020 from $66.1 million for the three months ended June 30, 2019 and was directly related to growth in gross written premiums.

Loss ratio

The loss ratio was 60.1% for the three months ended June 30, 2020 compared to 59.9% for the three months ended June 30, 2019. The increase in the loss ratio in the second quarter of 2020 compared to the second quarter of 2019 was due primarily to higher loss selections for the current accident year, offset in part by higher favorable development on loss reserves from prior accident years and a slight decrease in catastrophe losses related to the current accident year.

During the second quarters of 2020 and 2019, the favorable development on loss reserves from prior accident years was primarily due to reported losses emerging at lower levels than expected. During the three months ended June 30, 2020, prior accident years developed favorably by $3.6 million, which was primarily attributable to the 2019 accident year. During the three months ended June 30, 2019, loss reserves for prior accident years developed favorably by $1.4 million.

The following table summarizes the loss ratios for the three months ended June 30, 2020 and 2019:

	Three Months Ended June 30,			
	2020		2019	
($ in thousands)	Losses and Loss Adjustment Expenses	% of Earned Premiums	Losses and Loss Adjustment Expenses	% of Earned Premiums
Loss ratio:				
Current accident year before catastrophe losses	$ 61,530	63.4 %	$ 40,360	61.1 %
Current year catastrophe losses	390	0.4 %	639	1.0 %
Effect of prior year development	(3,616)	(3.7)%	(1,420)	(2.2)%
Total	$ 58,304	60.1 %	$ 39,579	59.9 %

Expense ratio

The following table summarizes the components of the expense ratio for the three months ended June 30, 2020 and 2019:

	Three Months Ended June 30,			
	2020		2019	
($ in thousands)	Underwriting Expenses	% of Earned Premiums	Underwriting Expenses	% of Earned Premiums
Commissions incurred:				
Direct	$ 16,341	16.9 %	$ 11,387	17.2 %
Ceding	(3,463)	(3.6)%	(3,114)	(4.7)%
Net commissions incurred	12,878	13.3 %	8,273	12.5 %
Other underwriting expenses	10,083	10.4 %	8,164	12.4 %
Underwriting, acquisition and insurance expenses	$ 22,961	23.7 %	$ 16,437	24.9 %

The expense ratio was 23.7% for the three months ended June 30, 2020 compared to 24.9% for the three months ended June 30, 2019. The decrease in the expense ratio was due to higher net earned premiums without a proportional increase in the amount of other underwriting expenses as a result of management's focus on controlling costs. This decrease was offset in part by higher net commissions incurred as a percentage of earned premiums and was largely due to an increase in the retention on our reinsurance treaties, which resulted in relatively lower ceded premiums and associated commissions. Direct commissions paid as a percent of gross written premiums was 14.5% for the three months ended June 30, 2020 and 14.6% for the three months ended June 30, 2019.

Investing results

The following table summarizes net investment income and net realized and unrealized gains and losses on investments for the three months ended June 30, 2020 and 2019:

	Three Months Ended June 30,			
($ in thousands)	**2020**	**2019**	**Change**	**% Change**
Interest from fixed-maturity securities	$ 6,167	$ 4,364	$ 1,803	41.3 %
Dividends from equity securities	879	566	313	55.3 %
Other	11	156	(145)	(92.9)%
Gross investment income	7,057	5,086	1,971	38.8 %
Investment expenses	(412)	(280)	(132)	47.1 %
Net investment income	6,645	4,806	1,839	38.3 %
Change in the fair value of equity securities	13,839	1,909	11,930	NM
Net realized gains (losses) on investments	253	(235)	488	NM
Total	$ 20,737	$ 6,480	$ 14,257	220.0 %

NM - Percentage change not meaningful.

Our net investment income increased by 38.3% to $6.6 million for the three months ended June 30, 2020 from $4.8 million for the three months ended June 30, 2019. This increase was primarily due to growth in our investment portfolio balance generated from the investment of excess operating funds since June 30, 2019 and from proceeds from our equity offering in the third quarter of 2019.

Our investment portfolio, excluding cash equivalents and unrealized gains and losses, had an annualized gross investment return of 3.0% for the three months ended June 30, 2020, compared to 3.2% for the three months ended June 30, 2019.

Unrealized gains on our equity investment portfolio increased by $13.8 million during the second quarter of 2020. This increase was mostly related to our ETF securities which are largely reflective of the broader domestic capital market. Fair values on these securities rebounded sharply during the second quarter of 2020 from significant declines in fair value driven by the disruption in the financial markets in March 2020 associated with the COVID-19 pandemic.

Income tax expense

Our effective tax rate was 17.0% for the three months ended June 30, 2020 compared to 16.7% for the three months ended June 30, 2019. The effective tax rates were lower than the federal statutory rate of 21% due to the tax benefits from the stock-based compensation and from income generated by certain tax-advantaged investments.

Six months ended June 30, 2020 compared to six months ended June 30, 2019

The following table summarizes our results of operations for the six months ended June 30, 2020 and 2019:

	Six Months Ended June 30,			
($ in thousands)	**2020**	**2019**	**Change**	**% Change**
Gross written premiums	$ 258,127	$ 179,573	$ 78,554	43.7 %
Ceded written premiums	(32,467)	(23,819)	(8,648)	36.3 %
Net written premiums	$ 225,660	$ 155,754	$ 69,906	44.9 %
Net earned premiums	$ 186,718	$ 127,578	$ 59,140	46.4 %
Losses and loss adjustment expenses	112,037	73,311	38,726	52.8 %
Underwriting, acquisition and insurance expenses	44,544	32,053	12,491	39.0 %
Underwriting income [(1)]	30,137	22,214	7,923	35.7 %
Net investment income	12,605	9,321	3,284	35.2 %
Change in fair value of equity securities	(2,322)	7,804	(10,126)	NM
Net realized gains on investments	1,029	45	984	NM
Other income (expense), net	23	(48)	71	(147.9)%
Income before taxes	41,472	39,336	2,136	5.4 %
Income tax expense	6,124	6,849	(725)	(10.6)%
Net income	$ 35,348	$ 32,487	$ 2,861	8.8 %
Net operating earnings [(2)]	$ 36,369	$ 26,286	$ 10,083	38.4 %
Loss ratio	60.0 %	57.5 %		
Expense ratio	23.9 %	25.1 %		
Combined ratio	83.9 %	82.6 %		
Annualized return on equity	16.4 %	22.7 %		
Annualized operating return on equity[(2)]	16.9 %	18.4 %		

NM - Percentage change not meaningful.

[(1)] Underwriting income is a non-GAAP financial measure. See "—Reconciliation of non-GAAP financial measures" for a reconciliation of net income in accordance with GAAP to underwriting income.

[(2)] Net operating earnings and operating return on equity are non-GAAP financial measures. Net operating earnings is defined as net income excluding the effects of the net change in the fair value of equity securities, after taxes, and net realized gains and losses on investments, after taxes. Annualized operating return on equity is defined as net operating earnings expressed on an annualized basis as a percentage of stockholders' equity during the period. See "—Reconciliation of non-GAAP financial measures" for a reconciliation of net income in accordance with GAAP to net operating earnings.

Net income was $35.3 million for the six months ended June 30, 2020 compared to $32.5 million for the six months ended June 30, 2019, an increase of 8.8%. The increase in net income for the first six months of 2020 over the same period last year was due to a number of factors including growth in the business from favorable market conditions, higher net investment income and a lower effective tax rate generated from the tax benefits related to stock-based compensation activity. These increases were offset in part by a decline in fair value on our equity investment portfolio driven by volatility in the financial markets.

Underwriting income [1] was $30.1 million for the six months ended June 30, 2020 compared to $22.2 million for the six months ended June 30, 2019, an increase of 35.7%. The corresponding combined ratios were 83.9% for the six months ended June 30, 2020 compared to 82.6% for the six months ended June 30, 2019. The increase in our underwriting income for the first six months of 2020 compared to the same period last year was due to growth in earned premiums period over period, offset in part by lower favorable development on loss reserves from prior accident years.

Premiums

Our gross written premiums were $258.1 million for the six months ended June 30, 2020 compared to $179.6 million for the six months ended June 30, 2019, an increase of $78.6 million, or 43.7%. The increase in gross written premiums for the first six months of 2020 over the same period last year was due to higher submission activity from brokers and higher rates, resulting from continued favorable market conditions in the excess and surplus lines market. The average premium on a policy written was approximately $8,800 in the first six months of 2020 compared to approximately $7,800 in the first six months of 2019. Excluding our personal lines insurance, which has a relatively low premium per policy written, the average premium on a policy written was approximately $11,600 for the first six months of 2020 and $10,500 for the first six months of 2019.

Net written premiums increased by $69.9 million, or 44.9%, to $225.7 million for the six months ended June 30, 2020 from $155.8 million for the six months ended June 30, 2019. The increase in net written premiums for the first six months of 2020 compared to the same period last year was primarily due to higher gross written premiums. The net retention ratio was 87.4% for the six months ended June 30, 2020 compared to 86.7% for the same period last year. The slight increase in the net retention ratio was primarily due to higher retention levels on the reinsurance treaties effective with the June 1, 2019 contract renewal.

Net earned premiums increased by $59.1 million, or 46.4%, to $186.7 million for the six months ended June 30, 2020 from $127.6 million for the six months ended June 30, 2019 due to growth in gross written premiums.

Loss ratio

The loss ratio was 60.0% for the six months ended June 30, 2020 compared to 57.5% for the six months ended June 30, 2019. The increase in the loss ratio in the first six months of 2020 compared to the first six months of 2019 was due primarily to lower favorable development on loss reserves from prior accident years.

During the first six months of 2020 and 2019, the favorable development on loss reserves from prior accident years was primarily due to reported losses emerging at lower levels than expected. During the six months ended June 30, 2020, prior accident years developed favorably by $6.6 million, of which $5.0 million was attributable to the 2019 accident year. During the six months ended June 30, 2019, loss reserves for prior accident years developed favorably by $7.8 million, of which $14.0 million was largely attributable to accident years 2017 and 2018. This favorable development was offset in part by adverse development in the accident years 2011 through 2016 of $6.2 million, which resulted from higher IBNR reserves to provide for emergence of reported losses over a longer period of time based on observed trends. The favorable development on loss reserves from prior accident years was lower in the first half of 2020 compared to the prior year in part to provide for the uncertainty associated with the emergence of reported losses over a longer period of time in light of recent economic conditions and other effects related to the COVID-19 pandemic.

The following table summarizes the loss ratios for the six months ended June 30, 2020 and 2019:

	Six Months Ended June 30,			
	2020		2019	
($ in thousands)	Losses and Loss Adjustment Expenses	% of Earned Premiums	Losses and Loss Adjustment Expenses	% of Earned Premiums
Loss ratio:				
Current accident year before catastrophe losses	$ 118,201	63.3 %	$ 80,458	63.1 %
Current year catastrophe losses	461	0.2 %	669	0.5 %
Effect of prior year development	(6,625)	(3.5)%	(7,816)	(6.1)%
Total	$ 112,037	60.0 %	$ 73,311	57.5 %

Expense ratio

The following table summarizes the components of the expense ratio for the six months ended June 30, 2020 and 2019:

	Six Months Ended June 30,			
	2020		2019	
($ in thousands)	Underwriting Expenses	% of Earned Premiums	Underwriting Expenses	% of Earned Premiums
Commissions incurred:				
Direct	$ 31,483	16.9 %	$ 22,061	17.3 %
Ceding	(6,646)	(3.6)%	(6,052)	(4.7)%
Net commissions incurred	24,837	13.3 %	16,009	12.6 %
Other underwriting expenses	19,707	10.6 %	16,044	12.5 %
Underwriting, acquisition and insurance expenses	$ 44,544	23.9 %	$ 32,053	25.1 %

The expense ratio was 23.9% for the six months ended June 30, 2020 compared to 25.1% for the six months ended June 30, 2019. The decrease in the expense ratio was due to higher net earned premiums without a proportional increase in the amount of other underwriting expenses as a result of management's focus on controlling costs. This decrease was offset in part by higher net commissions incurred as a percentage of earned premiums period over period, which was largely due to an increase in the retention on our reinsurance treaties and resulted in relatively lower ceded premiums and associated commissions for the six months ended June 30, 2020. Direct commissions paid as a percent of gross written premiums was 14.6% for both the six months ended June 30, 2020 and 2019.

Investing results

The following table summarizes net investment income, change in the fair value of equity securities and net realized investment gains for the six months ended June 30, 2020 and 2019:

	Six Months Ended June 30,			
($ in thousands)	**2020**	**2019**	**Change**	**% Change**
Interest from fixed-maturity securities	$ 11,693	$ 8,439	$ 3,254	38.6 %
Dividends from equity securities	1,454	1,087	367	33.8 %
Other	261	401	(140)	(34.9)%
Gross investment income	13,408	9,927	3,481	35.1 %
Investment expenses	(803)	(606)	(197)	32.5 %
Net investment income	12,605	9,321	3,284	35.2 %
Change in fair value of equity securities	(2,322)	7,804	(10,126)	NM
Net realized gains on investments	1,029	45	984	NM
Total	$ 11,312	$ 17,170	$ (5,858)	(34.1)%

NM - Percentage change not meaningful.

Our net investment income increased by 35.2% to $12.6 million for the six months ended June 30, 2020 from $9.3 million for the six months ended June 30, 2019. This increase in the first six months of 2020 compared to the same period last year was primarily due to growth in our investment portfolio balance generated from the investment of excess operating funds since June 30, 2019 and proceeds from our equity offering in the third quarter of 2019. This increase was offset in part by lower gross investment returns in the first half of 2020 compared to the first half of 2019. Our fixed-maturity investment portfolio, excluding cash equivalents and unrealized gains and losses, had an annualized gross investment return of 3.0% for the six months ended June 30, 2020, compared to 3.2% for the six months ended June 30, 2019. The decrease in annualized gross investment returns was due to a lower interest rate environment since June 30, 2019.

During the first half of 2020, the change in fair value of equity securities was comprised of unrealized losses related to preferred stock of $1.5 million and ETF securities of $0.8 million. Fair values of ETF securities declined by $13.1 million during the first quarter of 2020, driven by the disruption in the financial markets associated with the COVID-19 pandemic, and rebounded sharply during the second quarter of 2020. During the first half of 2019, the change in fair value of equity securities was comprised of unrealized gains related to ETF securities of $5.9 million and preferred stock of $1.9 million. The unrealized gains related to ETF securities during the first half of 2019 reflected increased volatility in the financial markets during that time period

We perform quarterly reviews of all available-for-sale securities within our investment portfolio to determine whether the decline in the securities' fair value is deemed to be a credit loss. Management concluded that there were no credit losses (previously known as other-than-temporary impairments) from available-for-sale investments for the six months ended June 30, 2020 or 2019.

Income tax expense

Our income tax expense was $6.1 million for the six months ended June 30, 2020 compared to $6.8 million for the six months ended June 30, 2019. Our effective tax rate was 14.8% for the six months ended June 30, 2020 compared to 17.4% for the six months ended June 30, 2019. The effective tax rate was lower than the federal statutory rate of 21% primarily due to the tax benefits from stock-based compensation and tax-exempt investment income.

Return on equity

Our annualized return on equity was 16.4% for the six months ended June 30, 2020 compared to 22.7% for the six months ended June 30, 2019. Our annualized operating return on equity was 16.9% for the six months ended June 30, 2020 compared to 18.4% for the six months ended June 30, 2019. The decrease in annualized operating return on equity for the six months ended June 30, 2020 compared to the prior-year period was due largely to the proceeds received from our equity offering in the third quarter of 2019.

Liquidity and capital resources

Sources and uses of funds

We are organized as a Delaware holding company with our operations primarily conducted by our wholly-owned insurance subsidiary, Kinsale Insurance Company, which is domiciled in Arkansas. Accordingly, we may receive cash through (1) loans from banks and other third parties, (2) issuance of equity and debt securities, (3) corporate service fees from our insurance subsidiary, (4) payments from our subsidiaries pursuant to our consolidated tax allocation agreement and other transactions, and (5) dividends from our insurance subsidiary. We may use the proceeds from these sources to contribute funds to Kinsale Insurance Company in order to support premium growth, reduce our reliance on reinsurance, pay dividends and taxes and for other business purposes.

We receive corporate service fees from Kinsale Insurance Company to reimburse us for most of the operating expenses that we incur. Reimbursement of expenses through corporate service fees is based on the actual costs that we expect to incur with no mark-up above our expected costs.

In August 2019, we filed a universal shelf registration statement with the SEC that expires in 2022. We can use this shelf registration to issue an unspecified amount of debt securities, common stock, preferred stock, depositary shares and warrants. The specific terms of any securities we issue under this registration statement will be provided in the applicable prospectus supplements.

Management believes that the Company has sufficient liquidity available both in Kinsale and in its insurance subsidiary, Kinsale Insurance Company, as well as in its other operating subsidiaries, to meet its operating cash needs and obligations and committed capital expenditures for the next 12 months.

Cash flows

Our most significant source of cash is from premiums received from our insureds, which, for most policies, we receive at the beginning of the coverage period. Our most significant cash outflow is for claims that arise when a policyholder incurs an insured loss. Because the payment of claims occurs after the receipt of the premium, often years later, we invest the cash in various investment securities that earn interest and dividends. We also use cash to pay commissions to insurance brokers, as well as to pay for ongoing operating expenses such as salaries, consulting services and taxes. As described under "—Reinsurance" below, we use reinsurance to manage the risk that we take related to the issuance of our policies. We cede, or pay out, part of the premiums we receive to our reinsurers and collect cash back when losses subject to our reinsurance coverage are paid.

The timing of our cash flows from operating activities can vary among periods due to the timing by which payments are made or received. Some of our payments and receipts, including loss settlements and subsequent reinsurance receipts, can be significant, so their timing can influence cash flows from operating activities in any given period. Management believes that cash receipts from premiums, proceeds from investment sales and redemptions and investment income are sufficient to cover cash outflows in the foreseeable future.

Our cash flows for the six months ended June 30, 2020 and 2019 were:

	Six Months Ended June 30,	
	2020	2019
	(in thousands)	
Cash and cash equivalents provided by (used in):		
Operating activities	$ 132,587	$ 71,292
Investing activities	(181,607)	(64,939)
Financing activities	11,588	(3,311)
Change in cash and cash equivalents	$ (37,432)	$ 3,042

Net cash provided by operating activities was approximately $132.6 million for the six months ended June 30, 2020, compared to $71.3 million for the same period in 2019. This increase was largely driven by higher premium volume, the timing of claim payments and reinsurance recoveries, offset in part by changes in operating assets and liabilities.

Net cash used in investing activities was $181.6 million for the six months ended June 30, 2020, compared to $64.9 million for the six months ended June 30, 2019. Net cash used in investing activities during the first six months of 2020 included purchases of fixed-maturity securities of $231.1 million, which in part reflected the deployment of cash equivalents held at December 31, 2019. Purchases of fixed-maturity securities were comprised primarily of corporate bonds, asset- and mortgage-backed securities, and municipal securities. During the first six months of 2020, we received proceeds of $54.5 million from sales of fixed-maturity securities, largely corporate bonds, and $42.1 million from redemptions of asset- and mortgage-backed securities and corporate bonds. For the six months ended June 30, 2020, purchases of ETFs and non-redeemable preferred stock were $26.2 million and $5.8 million, respectively. Net cash used in investing activities included net purchases of property and equipment of $15.1 million, primarily related to the development of our new corporate headquarters, previously disclosed.

Net cash used in investing activities during the first six months of 2019 reflected purchases of fixed-income securities of $115.4 million, comprised of asset- and mortgage-backed securities and corporate bonds. During the first six months of 2019, we received proceeds of $31.4 million from sales of fixed-maturity securities, principally municipal bonds, and $25.7 million from redemptions of corporate bonds and asset- and mortgage-backed securities. During the six months ended June 30, 2019, purchases and sales of non-redeemable preferred stocks were $2.1 million and $2.9 million, respectively, and purchases of ETFs were $1.5 million. In addition, net cash used in investing activities included the purchase of property and equipment for $6.0 million mostly related to the development of our new corporate headquarters.

During the first six months of June 30, 2020, we drew down $16.3 million on our Credit Facility, which was used to fund the construction of our new headquarter facilities. In addition, during the first six months of June 30, 2020, cash used in financing activities reflected dividends paid of $0.18 per common share, or $4.0 million in aggregate. During the first six months of June 30, 2019, cash used in financing activities primarily reflected dividends paid of $0.16 per common share, or $3.4 million in aggregate. Proceeds received from our equity compensation plans were $1.1 million, offset by payroll taxes withheld and remitted on restricted stock awards of $1.8 million for the six months ended June 30, 2020. Net proceeds from equity compensation totaled $0.4 million for the six months ended June 30, 2019.

Credit agreement

In May 2019, we entered into a Credit Agreement that provided us with a $50 million Credit Facility and an uncommitted accordion feature that permits us to increase the commitments by an additional $30 million. The Credit

Facility has a maturity of May 28, 2024. Borrowings under the Credit Facility will be used to fund construction of our new headquarters and may also be used for working capital and general corporate purposes. Interest rates on borrowings are based on prevailing interest rates and the applicable margin, as described in the Credit Agreement. As of June 30, 2020, there was $33.1 million outstanding under the Credit Facility, net of debt issuance costs.

Reinsurance

We enter into reinsurance contracts primarily to limit our exposure to potential large losses. Reinsurance involves an insurance company transferring ("ceding") a portion of its exposure on a risk to another insurer, the reinsurer. The reinsurer assumes the exposure in return for a portion of the premium. Our reinsurance is primarily contracted under quota-share reinsurance contracts and excess of loss contracts. In quota-share reinsurance, the reinsurer agrees to assume a specified percentage of the ceding company's losses arising out of a defined class of business in exchange for a corresponding percentage of premiums, net of a ceding commission. In excess of loss reinsurance, the reinsurer agrees to assume all or a portion of the ceding company's losses, in excess of a specified amount. Under excess of loss reinsurance, the premium payable to the reinsurer is negotiated by the parties based on their assessment of the amount of risk being ceded to the reinsurer because the reinsurer does not share proportionately in the ceding company's losses.

We use facultative reinsurance coverage on a limited basis. Facultative coverage refers to a reinsurance contract on individual risks as opposed to a group or class of business. It is used for a variety of reasons, including supplementing the limits provided by the treaty coverage or covering risks or perils excluded from treaty reinsurance.

We renew our reinsurance treaties annually. During each renewal cycle, there are a number of factors we consider when determining our reinsurance coverage, including (1) plans to change the underlying insurance coverage we offer, (2) trends in loss activity, (3) the level of our capital and surplus, (4) changes in our risk appetite and (5) the cost and availability of reinsurance coverage.

To manage our natural catastrophe exposure, we use computer models to analyze the risk of severe losses. We measure exposure to these losses in terms of probable maximum loss ("PML"), which is an estimate of the amount of loss we would expect to meet or exceed once in a given number of years (referred to as the return period). When managing our catastrophe exposure, we focus on the 100 year and the 250 year return periods. Effective with the June 1, 2020 renewal, we entered into a new personal insurance quota share treaty. We used model results previously noted to stress test the completeness of our program and determined that over 70% of the modelled losses from catastrophes costing over $10 million came from our personal insurance business. We determined that utilizing a personal lines quota share treaty combined with a catastrophe treaty was a more efficient and cost effective way to manage the total loss exposure on our property coverages.

The following is a summary of our significant reinsurance programs as of June 30, 2020:

Line of Business Covered	Company Policy Limit	Reinsurance Coverage	Company Retention
Property - per risk (1)	Up to $10.0 million per risk	$8.0 million excess of $2.0 million	$2.0 million per occurrence
Property - personal insurance (2)	N/A	50% up to $47.5 million per catastrophe	50% of all personal property losses
Property - catastrophe (3)	N/A	$45.0 million excess of $10.0 million	$10.0 million per catastrophe
Primary casualty (4)	Up to $10.0 million per occurrence	$8.0 million excess of $2.0 million	$2.0 million per occurrence
Excess casualty (5)	Up to $10.0 million per occurrence	Variable quota share	$2.0 million per occurrence except as described in note (5) below

(1) Our property per-risk reinsurance reduces the financial impact of a large loss on a single commercial property or inland marine policy. This treaty includes a reinstatement provision which requires us to pay reinstatement premiums after a loss has occurred in order to preserve coverage.

(2) Our personal insurance quota share reinsurance reduces the financial impact of property losses on our personal insurance policies.

(3) Our property catastrophe reinsurance reduces the financial impact of a catastrophe event involving multiple claims and policyholders. Our property catastrophe reinsurance includes a reinstatement provision which requires us to pay reinstatement premiums after a loss has occurred in order to preserve coverage. Including the reinstatement provision, the maximum aggregate loss recovery limit is $90 million and is in addition to the per-occurrence coverage provided by our facultative and treaty coverages.

(4) Reinsurance is not applicable to any individual policy with a per occurrence limit of $2.0 million or less.

(5) For policies with a per occurrence limit higher than $2.0 million, the quota-share ceding percentage varies such that the retention is always $2.0 million or less. For example, for a $4.0 million limit excess policy, our retention would be 50%, whereas for a $10.0 million limit excess policy, our retention would be 20%. For policies for which we also write an underlying primary limit, the retention on the primary and excess policy combined would not exceed $2.0 million.

Reinsurance contracts do not relieve us from our obligations to policyholders. Failure of the reinsurer to honor its obligations could result in losses to us, and if such an event occurred, we would establish an allowance for those amounts considered uncollectible. In formulating our reinsurance programs, we are selective in our choice of reinsurers and we consider numerous factors, the most important of which are the financial stability of the reinsurer, its history of responding to claims and its overall reputation. In an effort to minimize our exposure to the insolvency of our reinsurers, we review the financial condition of each reinsurer annually. In addition, we continually monitor for rating downgrades involving any of our reinsurers. At June 30, 2020, all reinsurance contracts that our insurance subsidiary was a party to were with companies with A.M. Best ratings of "A" (Excellent) or better. As of June 30, 2020, we have never had a loss for uncollectible reinsurance.

Ratings

Kinsale Insurance Company has a financial strength rating of "A" (Excellent) with a stable outlook from A.M. Best. A.M. Best assigns 16 ratings to insurance companies, which currently range from "A++" (Superior) to "F" (In

Liquidation). "A" (Excellent) is the third highest rating issued by A.M. Best. The "A" (Excellent) rating is assigned to insurers that have, in A.M. Best's opinion, an excellent ability to meet their ongoing obligations to policyholders. This rating is intended to provide an independent opinion of an insurer's ability to meet its obligation to policyholders and is not an evaluation directed at investors.

The financial strength ratings assigned by A.M. Best have an impact on the ability of the insurance companies to attract and retain agents and brokers and on the risk profiles of the submissions for insurance that the insurance companies receive. The "A" (Excellent) rating obtained by Kinsale Insurance Company is consistent with our business plan and allows us to actively pursue relationships with the agents and brokers identified in our marketing plan.

Financial condition

Stockholders' equity

At June 30, 2020, total stockholders' equity was $456.1 million and tangible stockholders' equity was $453.3 million, compared to total stockholders' equity of $405.9 million and tangible stockholders' equity $403.1 million at December 31, 2019. The increases in both total and tangible stockholders' equity over the prior year-end balances were primarily due to profits generated during the period, higher fair values on our available-for-sale investments, net of taxes, and activity related to stock-based compensation plans. These increases were offset in part by the payment of dividends.

Tangible stockholders’ equity is a non-GAAP financial measure. We define tangible stockholders’ equity as total stockholders’ equity less intangible assets, net of deferred taxes. Our definition of tangible stockholders’ equity may not be comparable to that of other companies, and it should not be viewed as a substitute for stockholders’ equity calculated in accordance with GAAP. We use tangible stockholders' equity internally to evaluate the strength of our balance sheet and to compare returns relative to this measure.

Stockholders' equity at June 30, 2020 and December 31, 2019, reconciles to tangible stockholders' equity as follows:

	June 30, 2020	December 31, 2019
	(in thousands)	
Stockholders' equity	$ 456,114	$ 405,880
Less: intangible assets, net of deferred taxes	2,795	2,795
Tangible stockholders' equity	$ 453,319	$ 403,085

Investment portfolio

At June 30, 2020, our cash and invested assets of $1.1 billion consisted of fixed-maturity securities, equity securities and cash and cash equivalents. At June 30, 2020, the majority of the investment portfolio was comprised of fixed-maturity securities of $893.4 million that were classified as available-for-sale. Available-for-sale investments are carried at fair value with unrealized gains and losses on these securities, net of applicable taxes, reported as a separate component of accumulated other comprehensive income. At June 30, 2020, we also held $107.9 million of equity securities, which were comprised of ETFs and non-redeemable preferred stock, and $63.0 million of cash and cash equivalents.

Our fixed-maturity securities, including cash equivalents, had a weighted average duration of 4.6 years at June 30, 2020 and 4.3 years at December 31, 2019 and an average rating of "AA-" at June 30, 2020 and "AA" at December 31, 2019.

At June 30, 2020 and December 31, 2019, the amortized cost and fair value on fixed-maturity securities were as follows:

	June 30, 2020			December 31, 2019		
	Amortized Cost	Estimated Fair Value	% of Total Fair Value	Amortized Cost	Estimated Fair Value	% of Total Fair Value
	($ in thousands)					
Fixed-maturity securities:						
U.S. Treasury securities and obligations of U.S. government agencies	$ 1,130	$ 1,113	0.1 %	$ 110	$ 112	— %
Obligations of states, municipalities and political subdivisions	178,620	190,544	21.3 %	166,312	172,893	23.7 %
Corporate and other securities	277,485	294,333	33.0 %	180,287	184,768	25.4 %
Commercial mortgage and asset-backed securities	261,734	265,887	29.8 %	195,750	197,970	27.1 %
Residential mortgage-backed securities	137,167	141,487	15.8 %	172,358	173,789	23.8 %
Total fixed-maturity securities	$ 856,136	$ 893,364	100.0 %	$ 714,817	$ 729,532	100.0 %

The table below summarizes the credit quality of our fixed-maturity securities at June 30, 2020 and December 31, 2019, as rated by Standard & Poor's Financial Services, LLC ("Standard & Poor's"):

	June 30, 2020		December 31, 2019	
Standard & Poor's or Equivalent Designation	Estimated Fair Value	% of Total	Estimated Fair Value	% of Total
	($ in thousands)			
AAA	$ 260,398	29.2 %	$ 213,174	29.2 %
AA	271,026	30.3 %	259,873	35.6 %
A	206,171	23.1 %	176,338	24.2 %
BBB	132,181	14.8 %	74,872	10.3 %
Below BBB and unrated	23,588	2.6 %	5,275	0.7 %
Total	$ 893,364	100.0 %	$ 729,532	100.0 %

The amortized cost and fair value of our fixed-maturity securities summarized by contractual maturity as of June 30, 2020 and December 31, 2019, were as follows:

	June 30, 2020			December 31, 2019		
	Amortized Cost	Estimated Fair Value	% of Total Fair Value	Amortized Cost	Estimated Fair Value	% of Total Fair Value
	($ in thousands)					
Due in one year or less	$ 11,926	$ 12,047	1.3 %	$ 9,940	$ 9,990	1.4 %
Due after one year through five years	114,967	122,401	13.7 %	115,480	118,611	16.3 %
Due after five years through ten years	142,571	152,692	17.1 %	79,235	82,314	11.3 %
Due after ten years	187,771	198,850	22.3 %	142,054	146,858	20.1 %
Commercial mortgage and asset-backed securities	261,734	265,887	29.8 %	195,750	197,970	27.1 %
Residential mortgage-backed securities	137,167	141,487	15.8 %	172,358	173,789	23.8 %
Total fixed maturities	$ 856,136	$ 893,364	100.0 %	$ 714,817	$ 729,532	100.0 %

Actual maturities may differ from contractual maturities because some borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

As of June 30, 2020, 7.5% of our total cash and investments were invested in ETFs. At June 30, 2020 and December 31, 2019, our ETF balances were comprised of the following funds:

	June 30, 2020		December 31, 2019	
Fund	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
	($ in thousands)			
Domestic stock market fund	$ 51,666	64.7 %	$ 42,873	78.7 %
Dividend yield equity fund	28,152	35.3 %	11,590	21.3 %
Total	$ 79,818	100.0 %	$ 54,463	100.0 %

As of June 30, 2020, 2.6% of our total cash and investments were invested in non-redeemable preferred stock. A summary of these securities by industry segment is shown below as of June 30, 2020 and December 31, 2019:

	June 30, 2020		December 31, 2019	
Industry	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
	($ in thousands)			
Financial	$ 24,815	88.3 %	$ 20,369	85.5 %
Utilities	2,880	10.3 %	2,992	12.5 %
Industrials and other	392	1.4 %	470	2.0 %
Total	$ 28,087	100.0 %	$ 23,831	100.0 %

Restricted investments

In order to conduct business in certain states, we are required to maintain letters of credit or assets on deposit to support state-mandated insurance regulatory requirements and to comply with certain third-party agreements. Assets held on deposit or in trust accounts are primarily in the form of high-grade securities. The fair value of our restricted assets was $6.9 million at both June 30, 2020 and December 31, 2019.

Off-balance sheet arrangements

We do not have any material off-balance sheet arrangements at June 30, 2020.

Reconciliation of non-GAAP financial measures

Reconciliation of underwriting income

Underwriting income is defined as net income excluding net investment income, the net change in the fair value of equity securities, net realized gains and losses on investments, other income, other expenses and income tax expense. The Company uses underwriting income as an internal performance measure in the management of its operations because the Company believes it gives management and users of the Company's financial information useful insight into the Company's results of operations and underlying business performance. Underwriting income should not be viewed as a substitute for net income calculated in accordance with GAAP, and other companies may define underwriting income differently.

Net income for the three and six months ended June 30, 2020 and 2019, reconciles to underwriting income as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2020**	**2019**	**2020**	**2019**
Net income	$ 30,262	$ 13,767	$ 35,348	$ 32,487
Income tax expense	6,180	2,768	6,124	6,849
Income before income taxes	36,442	16,535	41,472	39,336
Other expenses	—	21	—	57
Net investment income	(6,645)	(4,806)	(12,605)	(9,321)
Change in the fair value of equity securities	(13,839)	(1,909)	2,322	(7,804)
Net realized (gains) losses on investments	(253)	235	(1,029)	(45)
Other income	(13)	(5)	(23)	(9)
Underwriting income	$ 15,692	$ 10,071	$ 30,137	$ 22,214

Reconciliation of net operating earnings

Net operating earnings is defined as net income excluding the effects of the net change in the fair value of equity securities, after taxes, and net realized gains and losses on investments, after taxes. Management believes the exclusion of these items provides a more useful comparison of the Company's underlying business performance from period to period. Net operating earnings and percentages or calculations using net operating earnings (e.g., diluted operating earnings per share and annualized operating return on equity) are non-GAAP financial measures. Net operating earnings should not be viewed as a substitute for net income calculated in accordance with GAAP, and other companies may define net operating earnings differently.

Net income for the three and six months ended June 30, 2020 and 2019, reconciles to net operating earnings as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2020**	**2019**	**2020**	**2019**
Net operating earnings:				
Net income	$ 30,262	$ 13,767	$ 35,348	$ 32,487
Change in the fair value of equity securities, after taxes	(10,933)	(1,508)	1,834	(6,165)
Net realized (gains) losses on investments, after taxes	(200)	186	(813)	(36)
Net operating earnings	$ 19,129	$ 12,445	$ 36,369	$ 26,286
Operating return on equity:				
Average stockholders' equity [(1)]	$ 428,724	$ 298,398	$ 430,997	$ 285,947
Annualized return on equity [(2)]	28.2 %	18.5 %	16.4 %	22.7 %
Annualized operating return on equity [(3)]	17.8 %	16.7 %	16.9 %	18.4 %

[(1)] Computed by adding the total stockholders' equity as of the date indicated to the prior quarter-end or year-end total, as applicable, and dividing by two.

[2] Annualized return on equity is net income expressed on an annualized basis as a percentage of average stockholders' equity during the period.

[3] Annualized operating return on equity is net operating earnings expressed on an annualized basis as a percentage of average stockholders' equity during the period.

Critical accounting estimates

We identified the accounting estimates which are critical to the understanding of our financial position and results of operations. Critical accounting estimates are defined as those estimates that are both important to the portrayal of our financial condition and results of operations and require us to exercise significant judgment. We use significant judgment concerning future results and developments in applying these critical accounting estimates and in preparing our consolidated financial statements. These judgments and estimates affect our reported amounts of assets, liabilities, revenues and expenses and the disclosure of our material contingent assets and liabilities, if any. Actual results may differ materially from the estimates and assumptions used in preparing the consolidated financial statements. We evaluate our estimates regularly using information that we believe to be relevant. Our critical accounting policies and estimates are described in our annual consolidated financial statements and the related notes in our Annual Report on Form 10-K for the year ended December 31, 2019.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of economic losses due to adverse changes in the estimated fair value of a financial instrument as the result of changes in interest rates, equity prices, foreign currency exchange rates and commodity prices. Our primary market risks have been equity price risk associated with investments in equity securities and interest rate risk associated with investments in fixed maturities. We do not have any material exposure to foreign currency exchange rate risk or commodity risk.

There have been no material changes in market risk from the information provided in our Annual Report on Form 10-K for the year ended December 31, 2019.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required financial disclosure.

As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures defined under Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of that date.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the second quarter of 2020 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

The effectiveness of any system of controls and procedures is subject to certain limitations, and, as a result, there can be no assurance that our controls and procedures will detect all errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be attained.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are party to legal proceedings which arise in the ordinary course of business. We believe that the outcome of such matters, individually and in the aggregate, will not have a material adverse effect on our consolidated financial position.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risks and uncertainties described under the heading "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 (our "2019 Form 10-K"), as updated and supplemented by the below risk factor. The below risk factor updates the risk factor captioned "Severe weather conditions and other catastrophes may result in an increase in the number and amount of claims filed against us." in our 2019 Form 10-K. These risks and uncertainties are not the only ones facing us. There may be additional risks and uncertainties of which we are currently unaware or currently believe to be immaterial. The occurrence of any of these risks could materially and adversely affect our business, financial condition, liquidity, results of operations and prospects.

Severe weather conditions, catastrophes, pandemics and similar events may adversely affect our business, results of operations and financial condition.

Our business is exposed to the risk of severe weather conditions and other catastrophes. Catastrophes can be caused by various events, including natural events such as severe winter weather, tornadoes, windstorms, earthquakes, hailstorms, severe thunderstorms and fires, and other events such as explosions, war, terrorist attacks and riots. The incidence and severity of catastrophes and severe weather conditions are inherently unpredictable. The extent of losses from catastrophes is a function of the total amount of losses incurred, the number of insureds affected, the frequency and severity of the events, the effectiveness of our catastrophe risk management program and the adequacy of our reinsurance coverage. Insurance companies are not permitted to reserve for a catastrophe until it has occurred. Severe weather conditions and catastrophes can cause losses in our property lines and generally result in both an increase in the number of claims incurred and an increase in the dollar amount of each claim asserted, which may require us to increase our reserves, causing our liquidity and financial condition to deteriorate. In addition, our inability to obtain reinsurance coverage at reasonable rates and in amounts adequate to mitigate the risks associated with severe weather conditions and other catastrophes could have a material adverse effect on our business and results of operations.

Our business is also exposed to the risk of pandemics, outbreaks, public health crises, and geopolitical and social events, and their related effects. On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. In response, governmental authorities (including the U.S. federal government, states and localities) have mandated, and continue to introduce, measures to slow the transmission of the virus, including shelter-in-place orders, significant restrictions on travel, limits on gatherings, quarantines and business shutdowns. While to date we have not seen a decrease in the growth rate of our gross written premiums since the beginning of the COVID-19 pandemic and related economic downturn, the COVID-19 situation remains fluid and continues to evolve, and at this time we are unable to determine the ultimate impact of COVID-19 and related economic downturn on our business, financial condition, results of operations and cash flows. While policy terms and conditions in the lines of business written by Kinsale would be expected to preclude coverage for virus-related claims, court decisions and governmental actions may challenge the validity of any exclusions or our interpretation of how such terms and conditions operate. In addition, in response to COVID-19, legislative, regulatory and judicial actions may include, but are not limited to, actions prohibiting us from cancelling insurance policies in accordance with our policy terms, ordering us to provide premiums refunds, granting extended grace periods for payment of premiums and providing for extended periods of time to pay past due premiums. We are closely monitoring the impact of the COVID-19 pandemic and related economic downturn on all aspects of our business, including how it will impact premium volume, losses and the fair value of our investment portfolio as well as how it may result in other effects such as the potential for delayed reporting and settlement of claims due to limited access to business locations. During the first quarter of 2020, we experienced a significant decline in the fair value of our investment portfolio due to disruption in the global financial markets associated with COVID-19, which adversely affected our total comprehensive income (loss) for the quarter. During the second quarter of 2020, the fair values of our investment portfolio rebounded sharply, gaining back a significant portion of the decline in fair value. If the COVID-19 pandemic continues for a significant length of time and measures put in place to stabilize the economy are not effective, or pandemics, outbreaks and other events occur or re-occur, our business, results of operations, financial condition and cash flows may be materially adversely affected.

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

None.

Item 6. Exhibits

Exhibit Number	Description
31.1	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS **	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* This certification is deemed not filed for purposes of section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

** The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

Signatures

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

KINSALE CAPITAL GROUP, INC.

Date: July 30, 2020	By:	/s/ Michael P. Kehoe
		Michael P. Kehoe President and Chief Executive Officer
Date: July 30, 2020	By:	/s/ Bryan P. Petrucelli
		Bryan P. Petrucelli Executive Vice President, Chief Financial Officer and Treasurer

Exhibit 31.1

CERTIFICATION

I, Michael P. Kehoe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kinsale Capital Group, 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.

July 30, 2020	/s/ Michael P. Kehoe
	Michael P. Kehoe
	President and Chief Executive Officer
	(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Bryan P. Petrucelli, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kinsale Capital Group, 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.

July 30, 2020	/s/ Bryan P. Petrucelli
	Bryan P. Petrucelli
	Executive Vice President, Chief Financial Officer and Treasurer
	(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q of Kinsale Capital Group, Inc. (the "Company") for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael P. Kehoe, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

July 30, 2020	/s/ Michael P. Kehoe
	Michael P. Kehoe
	President and Chief Executive Officer
	(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q of Kinsale Capital Group, Inc. (the "Company") for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bryan P. Petrucelli, Executive Vice President, Chief Financial Officer and Treasurer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

July 30, 2020

/s/ Bryan P. Petrucelli

Bryan P. Petrucelli
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)