KBRA KROLL BOND RATING AGENCY

KBRA Affirms Ratings of CATIC Financial, Inc. and CATIC; Upgrades CATIC Title Insurance Company

NEW YORK, NY (July 27, 2018) – Kroll Bond Rating Agency (KBRA) affirms the insurance financial strength rating (IFSR) of BBB+ for Connecticut Attorneys Title Insurance Company (CATIC), the lead operating subsidiary of CATIC Financial, Inc. (CATIC Financial). Additionally, KBRA upgrades the IFSR of CATIC Title Insurance Company (CATICO) to BBB- from BB+. Further, KBRA affirms CATIC Financial's issuer rating of BB+. CATIC Financial and its subsidiaries provide title insurance and related services on residential and commercial properties in New England, Florida and New York, and operates exclusively through a network of independent title agents. All Outlooks are Stable.

The assigned ratings reflect the organization's conservative operating strategy, market leadership position in key states, favorable earnings, and experienced management team. CATIC's conservative operating strategy is demonstrated by its net premium to policyholders surplus ratio, which compares favorably to both the title industry's ratio, as well as to those of independent title companies. CATIC also maintains a conservative reserve position with consistent favorable development of known claim reserves and statutory premium reserves in excess of its latest independent actuarial estimate. CATIC is the market leader in its key states of Connecticut and Vermont, with a strong presence in Massachusetts and niche market expertise throughout New England. CATIC's business strategy of "by attorneys, for attorneys" fills a long-standing market niche, which KBRA believes is sustainable for the foreseeable future and facilitates low loss ratios.

Tempering these strengths are CATIC's elevated expense ratio, modest surplus decline, and potential execution risk with regard to its expansion strategy. CATIC's expense ratio is somewhat elevated relative to the overall title industry, reflective of systems upgrades, growth initiatives, additions to staff, and new office openings. With these initiatives complete, KBRA expects improved expense ratios in the near to medium term. CATIC's modest surplus decline is largely due to a downturn in 2014 related to local market conditions, legacy losses from run-off business, and stockholder dividends. However, CATIC has reported positive net income in each of the past five years and has achieved profitability in nine of the past ten years. KBRA expects meaningful surplus growth at CATIC over the next few years driven by profitability and minimal dividends to CATIC Financial.

CATICO was reactivated in 2017 with writings in New York and plans to fully expand into New Jersey and Pennsylvania this year. The rating upgrade for CATICO reflects the ongoing financial commitment from its parent, CATIC Financial, to maintain at least $1 million in statutory surplus as well as recent capital contributions. This was demonstrated with a $500,000 cash infusion to CATICO in June 2017 and the addition of a $850,000 surplus note to more than offset the decrease in deferred tax assets from the recent tax law changes. CATICO also has an affiliated reinsurance treaty to minimize its net exposure.

CATICO's rating is constrained by the fact that the entity is currently operating under a modified consent order and remains under supervision by the New Jersey Department of Banking and Insurance. The enterprise had experienced historical operating losses from defalcation claims on legacy business and, despite actions taken to improve overall risk management, KBRA believes the group's expansion into new markets could generate additional operational and financial challenges. Finally, although the consent order requires conservative premium to surplus ratios, CATICO has a relatively low level of overall capitalization with less than $2 million of policyholders' surplus.

The ratings are based on KBRA's **Global Insurer & Insurance Holding Company Rating Methodology** published on October 10, 2017.

A detailed report will follow.

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