Consolidated Financial Statements and
Report of Independent Certified Public Accountants

CATIC FINANCIAL, INC. AND SUBSIDIARIES

December 31, 2018 and 2017

CATIC FINANCIAL, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
CATIC Financial, Inc.

We have audited the accompanying consolidated financial statements of CATIC Financial, Inc. (a Delaware corporation) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive loss and change in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Grant Thornton

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CATIC Financial, Inc. and subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required supplementary information

Accounting principles generally accepted in the United States of America require that the information about incurred and paid claims development for the years prior to December 31, 2009 and years ended December 31, 2009 through 2017, and the average annual percentage payout of incurred claims by age as set forth in Note 5 be presented to supplement the basic consolidated financial statements. Such information, although not a required part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Grant Thornton LLP

Hartford, Connecticut
May 14, 2019

CATIC FINANCIAL, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
As of December 31, 2018 and 2017

	2018	2017
ASSETS		
Investments		
Debt securities		
Held-to-maturity, at amortized cost	$ 6,087,663	$ 8,671,643
Available-for-sale, at fair value	32,253,136	35,070,476
Equity securities, at fair value	9,492,651	10,514,254
Total investments	47,833,450	54,256,373
Cash and cash equivalents	14,246,390	9,996,755
Accounts, notes and other receivables, net	1,698,642	1,242,186
Accrued investment income	275,115	345,684
Reinsurance recoverable on paid and unpaid policy claims and loss adjustment expenses	5,025,248	100,000
Prepaid expenses	525,703	535,834
Federal income taxes recoverable	63,537	42,018
Deferred income tax assets	1,679,086	1,607,802
Premises, equipment and software, net	3,035,271	3,117,001
Title plant	418,373	418,373
Other assets	735,679	583,224
Total assets	$ 75,536,494	$ 72,245,250
LIABILITIES AND NET ASSETS		
LIABILITIES		
Policy claims and loss adjustment expense reserves	$ 35,378,162	$ 25,437,358
Accounts payable and accrued expenses	4,737,240	4,148,700
Deferred revenue	304,129	341,635
Notes payable	3,968,322	4,069,373
Total liabilities	44,387,853	33,997,066
NET ASSETS		
Unassigned	32,836,393	38,616,973
Accumulated other comprehensive loss	(1,687,752)	(368,789)
Total net assets	31,148,641	38,248,184
Total liabilities and net assets	$ 75,536,494	$ 72,245,250

The accompanying notes are an integral part of these consolidated financial statements.

CATIC FINANCIAL, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Loss and Change in Net Assets
For the years ended December 31, 2018 and 2017

	2018	2017
REVENUES		
Title insurance premiums	$ 119,334,155	$ 105,771,090
Title and other service fees	7,903,997	7,441,356
Net investment income	1,383,055	1,337,213
Net realized gains on investments	435,196	1,046,871
Other revenue	1,447,352	1,214,756
Total revenues	130,503,755	116,811,286
EXPENSES		
Title insurance commissions	81,109,631	71,033,215
Compensation and benefits	27,566,337	22,567,202
Provision for policy claims and loss adjustment expenses	9,645,647	6,796,400
Other general and administrative expenses	13,849,887	13,301,535
Premium taxes	2,607,693	2,391,026
Depreciation and amortization	1,054,090	909,780
Interest	160,505	163,449
Total expenses	135,993,790	117,162,607
Loss before income tax expense	(5,490,035)	(351,321)
Income tax expense	290,545	990,522
Net loss	(5,780,580)	(1,341,843)
Other comprehensive income (loss)		
Unrealized gains (losses) on investments		
Gross unrealized (losses) gains on investments	(1,327,423)	1,128,389
Less: Reclassification of net realized gains on investments	(435,196)	(1,046,871)
	(1,762,619)	81,518
Deferred income tax (benefit) expense	(370,150)	30,118
	(1,392,469)	51,400
Change in defined benefit plan liability		
Pension income (expense)	93,046	(45,723)
Deferred income tax expense (benefit)	19,540	(15,545)
	73,506	(30,178)
Net other comprehensive (loss) income	(1,318,963)	21,222
Comprehensive loss	(7,099,543)	(1,320,621)
Net repurchases of common stock prior to conversion to a non-stock corporation (Note1)	-	(96,050)
Decrease in net assets	(7,099,543)	(1,416,671)
Net assets at beginning of year	38,248,184	39,664,855
Net assets at end of year	$ 31,148,641	$ 38,248,184

The accompanying notes are an integral part of these consolidated financial statements.

CATIC FINANCIAL, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums and other title insurance service fees received	$ 126,744,190	$ 113,222,114
Interest and dividends received	1,541,789	1,521,673
Other operating receipts	1,447,352	1,214,756
Commissions and other expenses paid	(124,594,286)	(109,281,241)
Policy claims and loss adjustment expenses paid	(4,630,091)	(4,710,236)
Interest expense paid	(160,505)	(163,449)
Income taxes paid	(32,738)	(14,489)
Net cash provided by operating activities	315,711	1,789,128
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of debt securities	10,288,181	11,997,525
Proceeds from sales of equity securities	8,959,751	26,482,623
Purchases of premises, equipment and software	(972,360)	(838,044)
Additions to title plant	-	(77,693)
Purchases of equity securities	(8,506,480)	(25,542,874)
Purchases of debt securities	(5,734,117)	(11,398,104)
Net cash provided by investing activities	4,034,975	623,433
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repurchases of common stock	-	(96,050)
Payments on notes payable	(101,051)	(98,205)
Net cash used in financing activities	(101,051)	(194,255)
Net increase in cash and cash equivalents	4,249,635	2,218,306
Cash and cash equivalents, beginning of year	9,996,755	7,778,449
Cash and cash equivalents, end of year	$ 14,246,390	$ 9,996,755

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF BUSINESS

CATIC Financial, Inc. and Subsidiaries' (the "Company") principal business is providing title insurance on residential and commercial properties. Its wholly owned subsidiary Connecticut Attorneys Title Insurance Company ("CATIC") has eleven offices in all six New England states and Florida operating exclusively through a network of independent title agents. In January 2017, the Company obtained approval to again provide title insurance on residential and commercial properties in New Jersey, New York and Pennsylvania through its wholly owned subsidiary, CATIC Title Insurance Company ("CATICO"), formerly known as New Jersey Title Insurance Company (see Note 15).

On March 7, 2017, the Company's Board of Directors approved an Agreement and Plan of Reorganization and Merger (the "Merger Agreement"), by and among the Company, CFI Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of the Company, and CFI of Delaware, Inc., a Delaware nonprofit nonstock corporation and wholly owned subsidiary of the Company (the "Successor Company"), providing for the conversion of the Company from a Connecticut business (stock) corporation into a Delaware nonprofit nonstock corporation through two successive mergers (the "Conversion"). The Merger Agreement was entered into on April 3, 2017. On June 21, 2017, the Conversion was approved by the shareholders of the Company, and the mergers required to complete the reorganization were completed. The Conversion qualified as a reorganization within the meaning of Section 368(a)(1)(F) of the Internal Revenue Code of 1986, as amended. Accordingly, the Conversion has been treated as a tax-free reorganization for federal and state income tax purposes. In connection with the Conversion, the Company repurchased all issued and outstanding shares of common stock for an aggregate purchase price of $96,050.

Principles of Consolidation

The consolidated financial statements include the accounts of CATIC Financial, Inc. ("Financial") and its four wholly owned operating subsidiaries: CATIC and CATICO, which provide title insurance and related services; Eastern Attorneys Services, Inc. ("EASI"), which provides title insurance services; and CATICPro, Inc., which provides services to the legal profession and is a licensed property-casualty insurance agency.

The consolidated financial statements also include the accounts of CATIC Insurance (VT) Ltd. ("CIVL"), a wholly owned subsidiary of CATIC formed as a Vermont captive insurance company for the purpose of providing CATICO with agent defalcation coverage and accessing the excess reinsurance market for such coverage (see Note 15); CATIC Acquired Properties, LLC, a wholly owned subsidiary of CATIC formed to hold and dispose of properties acquired in connection with claim settlements; CATIC Exchange, LLC, a wholly owned subsidiary of CATIC formed to provide IRS code-1031 like-kind exchange transactions; and CATIC Exchange Facilitator, Inc., a wholly owned subsidiary of CATIC Exchange, LLC, formed to facilitate tax deferred reverse property exchanges. In addition, in 2018, a separate account was established in CIVL to assume a 50% quote share of a lawyers professional liability insurance program underwritten by a commercial property-casualty company which is endorsed and sponsored by CATIC.

All intercompany accounts and transactions have been eliminated in consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Significant estimates are made by management with regard to the fair value of investments, valuation of accounts, notes and other receivables, deferred income taxes, and the reserve for policy claims and loss adjustment expenses. Actual results may differ from those estimates, and those differences may be material.

Cash and Cash Equivalents

The Company deposits substantial funds in financial institutions, maintaining its cash and cash equivalents in bank deposit or brokerage accounts which are periodically reviewed by senior management for financial stability. These funds include amounts owned by third parties, such as escrow deposits. Generally, the Company’s cash and cash equivalents in depository accounts exceed Federal Deposit Insurance Corporation (“FDIC”) depository insurance limits. Should one or more of the financial institutions at which the Company maintains deposits fail, there is no guarantee that the Company would recover the funds it has deposited, whether through FDIC coverage or otherwise. In the event of such failure, the Company could also be held liable for the funds owned by third parties even though such amounts are not considered assets of the Company (Note 12). Such events could be disruptive to the Company’s business and could adversely affect the Company’s liquidity, results of operations and financial condition. The Company has never experienced any losses in such cash and cash equivalents accounts.

Accounts Receivable and Revenue Recognition

Accounts receivable are recorded at their estimated realizable value, net of an allowance for uncollectible amounts. The allowance is based on historical bad debt experience and the specific identification of accounts deemed uncollectible. The Company determines an account receivable’s delinquency status based on its contractual terms. Interest is not charged on outstanding balances. The Company extends credit to agents without requiring collateral. Receivables are written off after all efforts to collect them have been exhausted. The allowance for uncollectible accounts totaled $210,000 and $220,000 at December 31, 2018 and 2017, respectively.

The Company recognizes title insurance premiums when notice of issuance is received from the agent, which is generally when cash payment is received by the Company. As a result, there is generally a delay between the agent’s issuance of a title policy and the Company’s recognition of title insurance premiums.

Deferred revenue represents advance payments for services which are recognized as fee revenue in the period in which the related service is performed. Accordingly, service fees received are deferred until actual services are performed. Deferred revenue totaled $304,129 and $341,635 at December 31, 2018 and 2017, respectively.

Investments

Debt securities are classified at the date of purchase as either held-to-maturity and carried at cost, net of amortization, or as available-for-sale and carried at fair value. Equity securities are classified as available-for-sale and carried at fair value.

Unrealized gains and losses are included in accumulated other comprehensive income (loss), a component of net assets, net of income taxes. Realized gains or losses on the sale of investments are determined based on specific identification at the time of sale. Amortization of bond premiums or discounts are recognized using the effective interest rate method.

Title Plant

A title plant is an integrated and indexed collection of title records consisting of documents, maps, surveys, or entries affecting title to real property or any interest in or encumbrance on the property which have been filed or recorded in the jurisdiction for which the title plant is established or maintained. They are the principal productive asset used to generate title insurance revenue and to mitigate the risk of claims. Title plants are carried at original cost. The costs of maintaining (updating) title plants are charged to expense as incurred. A properly maintained title plant has an indefinite life and does not diminish in value with the passage of time. Accordingly, there is no provision for depreciation or amortization of the title plant. The Company annually analyzes its title plant for impairment. The factors that the Company considers include, but are not limited to, the effects of obsolescence, duplication, demand and other economic factors. No impairment loss was recognized on the title plant utilized during 2018 and 2017.

Premises, Equipment and Software

Premises, equipment and software are carried at cost, less accumulated depreciation and amortization. Furniture and equipment purchases of $1,000 or greater and significant real estate improvements are added to the premises and equipment accounts, while replacements, maintenance and repairs that do not improve or extend the life of the respective assets are expensed as incurred.

The Company capitalizes costs of developing internal-use software. Such costs include the cost of externally acquired goods and services and payroll and payroll-related costs of employees who are directly associated with the development of the internal-use software. The Company capitalized costs of developing internal-use software totaling $472,799 and $203,808 in 2018 and 2017, respectively.

The Company provides for depreciation and amortization of premises, equipment and software using the straight-line method by charging against earnings amounts sufficient to amortize the costs of these assets over their estimated useful lives as follows:

Building and improvements	10-30 years
Furniture and equipment	3-5 years
Internal-use software	3-5 years

Policy Claims and Loss Adjustment Expenses

The Company provides for title insurance losses based upon its historical experience by a charge to expense when the related premium revenue is recognized. The reserve for known and incurred but not reported ("IBNR") claims reflects management's best estimate of the total costs required to settle all claims reported to the Company and IBNR claims. The process of assessing the IBNR reserve involves evaluation of the results of an independent actuarial valuation. Current economic and business trends are also reviewed and used in the reserve analysis. These include real estate and mortgage market conditions, changes in residential and commercial real estate values, and changes in the levels of defaults and foreclosures that may affect claims levels and patterns of emergence, as well as Company-specific factors that may be relevant to past and future claims experience. Results from the valuation include, but are not limited to, a range of IBNR reserve estimates and a central point estimate for the IBNR as of the consolidated balance sheet date. The third-party actuary's valuation uses generally accepted actuarial methods and is used to validate the accuracy of the total of the known claims reserves. The Company uses the central point estimate of the projected IBNR from the third-party actuary's valuation, considering it to be the best estimate of the total amount required for the IBNR reserve. It is likely that a change in the estimate will occur in future years and such change may be material.

Escrow Funds

In the normal course of business, the Company receives and holds escrow funds for certain transactions or disputes with title. The Company holds these funds as an agent and does not consider them to be assets or liabilities of the Company, therefore, the amounts are not included in the consolidated balance sheets.

Leases

Rentals that convey merely the right to use property are charged to expense as incurred.

Advertising

The Company expenses promotional, advertising, and entertainment costs as incurred. Promotion, advertising, and entertainment expense for the years ended December 31, 2018 and 2017 was $1,315,767 and $1,606,295, respectively.

Income and Premium Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act").

Among other important changes in the Tax Act, those that impact the Company are the reduction in the federal corporate tax rate from 35% to 21%, the ability to immediately expense certain tangible property acquired after September 27, 2017, the use of the treasury bond yield curve as the loss discount factor for loss reserve deduction calculations and a modified income limitation applied to certain tax exempt income.

The Company accounted for the effect of the reduction in the U.S. federal corporate income tax rate in its tax provision for the year ended December 31, 2017, which resulted in a deferred tax charge of $1.8 million that was entirely offset by a decrease in the valuation allowance.

The Company completed it's accounting for the Tax Act in 2018, however, certain provisions of the Tax Act are unclear and are subject to interpretation pending further guidance from the Internal Revenue Service, which could result in changes to the amounts of deferred tax assets and liabilities in future periods.

The Company elected to early adopt Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2018-02 *Reclassification of Certain Tax Effects from Other Comprehensive Income* ("ASU 2018-02"), which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. As a result of early adoption, the Company has reclassified $60,687 of stranded net tax benefits from accumulated other comprehensive income (loss) to unassigned net assets at December 31, 2017.

Income tax expense includes federal and state income taxes currently payable and deferred income taxes. The Company provides for deferred taxes on temporary differences arising from assets and liabilities whose bases are different for financial reporting and income tax purposes. These differences relate primarily to different depreciation and loss reserve methods used for financial reporting and income tax purposes, unrealized gains (losses) on investments and the recognition of net operating loss carry-forwards. A valuation allowance is provided to the extent the Company cannot determine that the ultimate realization of net deferred tax assets is more likely than not.

The Company recognizes uncertain tax positions when it is more likely than not the position will be sustained upon examination by the tax authorities. As of December 31, 2018 and 2017, the Company had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. In the normal course of business, the Company's tax filings are subject to audit by federal and state tax authorities.

In lieu of state income taxes, CATIC and CATICO pay state premium taxes based on premiums written. The other subsidiaries continue to be taxed on their respective state income.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Authoritative accounting guidance establishes a hierarchy of valuation techniques used to determine the fair value of assets and liabilities based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (also referred to as observable inputs). Authoritative accounting guidance requires that the valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The following summarizes the fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 - Inputs, other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs 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
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs that are unobservable for the asset or liability.

The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement.

As of December 31, 2018 and 2017, the Company has determined that its assets and liabilities required to be measured and disclosed at fair value consist solely of debt and equity securities classified as available-for-sale and financial assets underlying the defined benefit plan.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. Such reclassifications have no impact on the previously reported net income or comprehensive loss.

3. INVESTMENTS

Details on carrying value and alternate value of the Company's debt and equity securities at December 31, 2018 and 2017 follow. Carrying value is amortized cost for held-to-maturity debt securities and fair value for available-for-sale debt and equity securities. Alternate values are fair value for held-to-maturity debt securities and cost for available-for-sale debt and equity securities.

	2018		2017	
	Carrying Value	Alternate Value	Carrying Value	Alternate Value
Held-to-maturity debt securities				
Tax-exempt securities	$ 2,790,418	$ 2,827,216	$ 3,771,214	$ 3,858,404
Government bonds	808,472	797,846	1,663,222	1,679,929
Corporate bonds	2,488,773	2,454,357	3,237,207	3,261,503
	$ 6,087,663	$ 6,079,419	$ 8,671,643	$ 8,799,836
Available-for-sale debt securities				
Tax-exempt securities	$ 3,580,960	$ 3,649,970	$ 4,560,068	$ 4,556,392
Government bonds	16,792,836	17,087,518	16,536,059	16,490,835
Corporate bonds	11,879,340	12,012,747	13,974,349	13,749,529
	$ 32,253,136	$ 32,750,235	$ 35,070,476	$ 34,796,756
Equity securities	$ 9,492,651	$ 10,389,282	$ 10,514,254	$ 10,419,085

The following table sets forth the unrealized gain and loss positions of the Company's investments at December 31, 2018 and 2017:

	2018		2017	
	Unrealized Gain	**Unrealized Losses**	**Unrealized Gain**	**Unrealized Losses**
Held-to-maturity debt securities				
Tax-exempt securities	$ 39,348	$ (2,550)	$ 88,070	$ (880)
Government bonds	5,646	(16,272)	17,741	(1,034)
Corporate bonds	-	(34,416)	32,656	(8,360)
	$ 44,994	$ (53,238)	$ 138,467	$ (10,274)
Available-for-sale debt securities				
Tax-exempt securities	$ 3,617	$ (72,627)	$ 51,417	$ (47,741)
Government bonds	36,415	(331,097)	52,078	(6,854)
Corporate bonds	32,971	(166,378)	257,335	(32,515)
	73,003	(570,102)	360,830	(87,110)
Equity securities	22,739	(919,370)	95,651	(482)
	$ 95,742	$ (1,489,472)	$ 456,481	$ (87,592)

	2018	**2017**
Net unrealized (losses) gains on available-for-sale debt securities and equity securities	$ (1,393,730)	$ 368,889
Deferred income tax (asset) liability	(292,683)	77,467
Net unrealized (losses) gains included in accumulated other comprehensive income (loss)	$ (1,101,047)	$ 291,422

Changes in the unrealized gain and loss positions of the Company's investments are included in other comprehensive income (loss) for the years ended December 31, 2018 and 2017.

The following table sets forth, as of December 31, 2018, investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer for which other-than-temporary impairments have not been recognized.

	Less than 12 months		12 Months or Greater	
	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
Held-to-maturity debt securities				
Tax-exempt securities	$ (2,550)	$ 501,595	$ -	$ -
Government bonds	(4,197)	130,810	(12,075)	578,374
Corporate bonds	(1,134)	249,060	(33,282)	2,205,297
	$ (7,881)	$ 881,465	$ (45,357)	$ 2,783,671
Available-for-sale debt securities				
Tax-exempt securities	$ (19,159)	$ 1,231,483	$ (53,468)	$ 1,842,366
Government bonds	(30,702)	2,708,995	(300,395)	10,544,650
Corporate bonds	(92,289)	6,113,816	(74,089)	2,133,715
	$ (142,150)	$ 10,054,294	$ (427,952)	$ 14,520,731
Equity securities	$ (754,734)	$ 5,714,415	$ (164,636)	$ 2,616,029

During the years ended December 31, 2018 and 2017, the Company recognized no other-than-temporary impairments of investments.

The following table sets forth the amortized cost and fair value of debt securities at December 31, 2018 by contractual or expected maturity. Actual maturities will differ from contractual or estimated maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$ 752,159	$ 753,120	$ 1,574,137	$ 1,541,955
One to five years	3,290,117	3,295,168	17,761,346	17,866,980
Five to ten years	1,496,839	1,489,190	9,915,379	9,766,941
After ten years	548,548	541,941	3,499,373	3,077,260
	$ 6,087,663	$ 6,079,419	$ 32,750,235	$ 32,253,136

As of December 31, 2018 and 2017, debt securities classified as held-to-maturity with an amortized cost of $1,009,565 and $946,453, respectively, were pledged as collateral to conduct title insurance business where required; and debt securities with an amortized cost of $3,648,113and $4,448,612, respectively, were pledged as collateral for notes payable to the Federal Home Loan Bank of Boston (Note 7).

The components of net realized investment gains presented in the accompanying statements of comprehensive loss and change in net assets for the years ended December 31, 2018 and 2017 were as follows:

	2018		2017	
	Realized Gains	Realized Losses	Realized Gains	Realized Losses
Available-for-sale debt securities	$ 38,486	$ (26,758)	$ 13,775	$ (1,071)
Equity securities	438,218	(14,750)	1,034,167	-
	$ 476,704	$ (41,508)	$ 1,047,942	$ (1,071)
Net realized investment gains	$ 435,196		$ 1,046,871	

Net investment income presented in the accompanying statements of comprehensive loss and change in net assets for the years ended December 31, 2018 and 2017 consists of the following:

	2018	2017
Interest and dividend income from		
Debt securities	$ 1,153,014	$ 1,165,045
Equity securities	370,317	344,369
Cash and cash equivalents	75,150	12,259
	1,598,481	1,521,673
Investment expenses	(215,426)	(184,460)
	$ 1,383,055	$ 1,337,213

The following table sets forth the Company's investments measured at fair value on a recurring basis using Level 1, 2 and 3 inputs as of December 31, 2018 and 2017:

	2018				2017			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Available-for-sale debt securities								
Tax-exempt securities	$ 3,580,960	$ -	$ 3,580,960	$ -	$ 4,560,068	$ -	$ 4,560,068	$ -
Government bonds	16,792,836	9,163,027	7,629,809	-	16,536,059	8,202,223	8,333,836	-
Corporate bonds	11,879,340	-	11,879,340	-	13,974,349	-	13,974,349	-
	32,253,136	9,163,027	23,090,109	-	35,070,476	8,202,223	26,868,253	-
Equity securities								
Mutual fund securities	6,880,762	6,880,762	-	-	7,803,408	7,803,408	-	-
Senior institutional loan fund*	2,611,889	-	-	-	2,710,846	-	-	-
	9,492,651	6,880,762	-	-	10,514,254	7,803,408	-	-
	$ 41,745,787	$ 16,043,789	$ 23,090,109	$ -	$ 45,584,730	$ 16,005,631	$ 26,868,253	$ -

* The senior institutional loan fund is measured using the net asset value per share practical expedient and has not been classified in the fair value hierarchy, but is disclosed here to reconcile total equity securities to the consolidated balance sheets.

As of December 31, 2018 and 2017, the Company's debt securities classified as available-for-sale are measured based upon quoted prices for identical assets in active markets (Level 1) or quoted prices for similar assets in active markets (Level 2); the Company's equity securities are measured based upon quoted prices for identical assets in active markets (Level 1). The Company had no investments measured at fair value using Level 3 inputs as of December 31, 2018 or 2017.

In accordance with FASB ASC 820-10, certain investments that are measured using the net asset value per share practical expedient have not been classified in the fair value hierarchy. As of December 31, 2018 and 2017, the Company holds an investment in a senior institutional loan fund totaling $2,611,889 and $2,710,846, respectively, that is measured using net asset value per share as a practical expedient. The senior institutional loan fund invests primarily in senior floating-rate bank loans to a diversified group of domestic and international companies. The Company may redeem up to one-third of its investment in the senior institutional loan fund upon 30 days' notice. A full redemption is payable in three equal installments 30 days, 60 days and 90 days following the Company's request.

4. PREMISES, EQUIPMENT AND SOFTWARE

Premises, equipment and software at December 31, 2018 and 2017, are summarized by major classification as follows:

	2018	2017
Land and land improvements	$ 403,162	$ 403,162
Building and improvements	5,242,962	5,213,891
Furniture and equipment	5,828,558	5,373,209
Internal-use software	3,570,479	3,097,680
	15,045,161	14,087,942
Less: Accumulated depreciation and amortization	12,009,890	10,970,941
	$ 3,035,271	$ 3,117,001

Depreciation and amortization expense of premises, equipment and software was $1,054,090 and $909,780 for the years ended December 31, 2018 and 2017, respectively.

5. POLICY CLAIMS AND LOSS ADJUSTMENT EXPENSE RESERVE

Activity affecting the Company's policy claims and loss adjustment expense reserves for the years ended December 31, 2018 and 2017 is summarized as follows:

	2018	2017
Balance, beginning of year	$ 25,437,358	$ 23,351,194
Less: reinsurance recoverable on unpaid losses	100,000	100,000
Net balance, beginning of year	25,337,358	23,251,194
Incurred related to		
Current year	7,284,451	5,908,984
Prior years	2,361,196	887,416
	9,645,647	6,796,400
Paid related to		
Current year	380,117	133,824
Prior years	4,249,974	4,576,412
	4,630,091	4,710,236
Net balance, end of year	30,352,914	25,337,358
Plus: reinsurance recoverable on unpaid losses	5,025,248	100,000
Balance, end of year	$ 35,378,162	$ 25,437,358

Policy claims and loss adjustment expense reserves as of December 31, 2018 and 2017 include known claim reserves of $9,271,166 and $2,536,480, respectively. Reinsurance recoverables related to known claim reserves total $3,986,248 and $0 as of December 31, 2018 and 2017, respectively.

The provision for prior year policy claims and loss adjustment expenses increased by $2,361,196 in 2018. The increase was primarily the result of the emergence of higher than anticipated losses at CATIC and CATICO which resulted in a re-estimation of anticipated losses increasing net reserves by $1.4 million and $1.0 million, respectively.

The provision for prior year policy claims and loss adjustment expenses increased by $887,416 in 2017. The increase was primarily the result of the emergence of higher than anticipated losses at CATICO, which resulted in a re-estimation of anticipated losses increasing reserves by $1.6 million. The unfavorable development at CATICO was partially offset by favorable development in CATIC's prior year loss estimates of $0.6 million.

The nature of title insurance makes its claims experience particularly sensitive to economic events such as changes in interest rates or declines in home sales. These factors, combined with the estimation uncertainty that is inherent in any unpaid loss and loss adjustment expense estimate, could result in a material deviation between actual and estimated losses.

The following is information about incurred and paid claims development as of December 31, 2018 presented separately for CATIC and CATICO, as well as cumulative claim frequency by claim event, and the total of incurred but not reported claims plus expected development on reported claims included with the net incurred claims amount. The information about incurred and paid claims development for the years ended December 31, 2009 to 2017 and periods prior to 2009 is presented as supplementary information.

CATIC

Incurred Loss and Allocated Loss Adjustment Expenses

	Year Ended December 31,										December 31, 2018	
Policy Year	2009*	2010*	2011*	2012*	2013*	2014*	2015*	2016*	2017*	2018	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2009	$ 3,780,000	$ 3,749,000	$ 2,717,000	$ 2,326,000	$ 2,110,000	$ 1,837,000	$ 2,098,000	$ 1,881,000	$ 1,962,000	$ 1,981,000	$ 255,000	236
2010	-	4,299,000	7,112,000	6,325,000	6,014,000	5,622,000	5,292,000	5,150,000	5,163,000	5,117,000	297,000	219
2011	-	-	3,611,000	2,924,000	2,421,000	2,474,000	1,961,000	1,760,000	1,899,000	1,951,000	396,000	176
2012	-	-	-	3,741,000	3,028,000	2,530,000	1,961,000	1,647,000	1,452,000	1,552,000	400,000	162
2013	-	-	-	-	3,934,000	3,184,000	2,750,000	1,979,000	1,929,000	1,598,000	507,000	169
2014	-	-	-	-	-	3,485,000	2,969,000	2,456,000	2,180,000	2,000,000	994,000	165
2015	-	-	-	-	-	-	3,840,000	3,035,000	2,686,000	2,520,000	1,440,000	128
2016	-	-	-	-	-	-	-	4,633,000	4,030,000	5,188,000	2,577,000	156
2017	-	-	-	-	-	-	-	-	5,599,000	5,827,000	4,198,000	98
2018	-	-	-	-	-	-	-	-	-	6,845,000	5,786,000	30
									Total	$ 34,579,000		

*Amounts unaudited

Cumulative Paid Losses and Loss Adjustment Expenses

	Year Ended December 31,									
Policy Year	2009*	2010*	2011*	2012*	2013*	2014*	2015*	2016*	2017*	2018
2009	$ 123,000	$ 498,000	$ 645,000	$ 798,000	$ 1,029,000	$ 1,063,000	$ 1,524,000	$ 1,454,000	$ 1,593,000	$ 1,705,000
2010	-	3,579,000	4,028,000	4,020,000	4,169,000	4,291,000	4,551,000	4,600,000	4,728,000	4,801,000
2011	-	-	64,000	266,000	387,000	707,000	968,000	1,099,000	1,382,000	1,524,000
2012	-	-	-	40,000	101,000	304,000	554,000	725,000	920,000	1,105,000
2013	-	-	-	-	24,000	192,000	420,000	625,000	870,000	992,000
2014	-	-	-	-	-	118,000	316,000	570,000	730,000	951,000
2015	-	-	-	-	-	-	48,000	219,000	476,000	911,000
2016	-	-	-	-	-	-	-	179,000	589,000	1,016,000
2017	-	-	-	-	-	-	-	-	134,000	533,000
2018	-	-	-	-	-	-	-	-	-	365,000
									Total	$ 13,903,000
									All outstanding liabilities before 2008*	$ 2,735,000
									Unallocated loss adjustment expenses	3,200,000
									Liabilities for claims and claims adjustment expenses	$ 26,611,000

*Amounts unaudited

CATICO

Incurred Loss and Allocated Loss Adjustment Expenses

	Year Ended December 31,										December 31, 2018	
Policy Year	2009*	2010*	2011*	2012*	2013*	2014*	2015*	2016*	2017*	2018	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2009	$ 2,277,000	$ 2,953,000	$ 3,048,000	$ 3,824,000	$ 4,437,000	$ 5,551,000	$ 6,071,000	$ 6,101,000	$ 6,305,000	$ 6,879,000	$ 453,000	154
2010	-	2,846,000	4,546,000	5,058,000	6,370,000	7,043,000	7,105,000	7,875,000	8,252,000	8,433,000	575,000	130
2011	-	-	4,739,000	4,054,000	3,661,000	3,793,000	3,828,000	3,682,000	3,944,000	3,715,000	180,000	136
2012	-	-	-	-	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	-	-	-	-	-	-
2014	-	-	-	-	-	-	-	-	-	-	-	-
2015	-	-	-	-	-	-	-	-	-	-	-	-
2016	-	-	-	-	-	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-	-	-	-	-	-
									Total	$ 19,027,000		

*Amounts unaudited

Cumulative Paid Losses and Loss Adjustment Expenses

	Year Ended December 31,									
Policy Year	2009*	2010*	2011*	2012*	2013*	2014*	2015*	2016*	2017*	2018
2009	$ 572,000	$ 1,650,000	$ 1,963,000	$ 3,278,000	$ 3,506,000	$ 4,170,000	$ 4,859,000	$ 5,458,000	$ 5,588,000	$ 6,248,000
2010	-	486,000	1,507,000	3,301,000	4,137,000	4,733,000	5,793,000	6,703,000	7,215,000	7,715,000
2011	-	-	1,605,000	2,514,000	2,773,000	2,928,000	3,023,000	3,065,000	3,204,000	3,394,000
2012	-	-	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	-	-	-	-
2014	-	-	-	-	-	-	-	-	-	-
2015	-	-	-	-	-	-	-	-	-	-
2016	-	-	-	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-	-	-	-
									Total	$ 17,357,000
							All outstanding liabilities before 2008*			$ 1,361,000
							Unallocated loss adjustment expenses			266,000
							Liabilities for claims and claims adjustment expenses			$ 3,297,000

*Amounts unaudited

The following is supplementary information about average historical claims duration presented separately for CATIC and CATICO as of December 31, 2018:

Average Annual Percentage Payout of Incurred Claims by Age (Unaudited)

Years	1	2	3	4	5	6	7	8	9	10
Annual payout - CATIC	10%	9%	9%	12%	11%	7%	12%	2%	4%	6%
Annual payout - CATICO	19%	17%	11%	11%	4%	7%	8%	7%	4%	10%

6. REINSURANCE

Reinsurance Ceded

CATIC cedes and assumes title policy risks to and from other insurance companies in order to limit and diversify its risk. Due to statutory regulatory restraints, CATIC is restricted to purchasing reinsurance from other title insurance companies unless such reinsurance is not commercially feasible. Beginning January 1, 2012, CATIC joined four other regional title insurers in a risk purchasing group called the American Title Reinsurance Alliance ("ATRA"). Through an arrangement between insurance brokers located in the United States and the United Kingdom, ATRA executed individual treaties with five Lloyd's syndicates. Under these treaties, for policy years 2018 and 2017, CATIC retains the first $3 million of every policy risk and cedes the next $17 million in excess of $3 million to the syndicates. The treaties contain aggregate loss limit of $17 million and may be reinstated up to two times for an additional payment equal to 100% of the original ceded premium per each reinstatement.

CATIC retains risk above $20 million to $30 million and facultatively reinsures any risk above $30 million.

In 2018, CATIC suffered a loss that pierced the shared first excess reinsured layers. Gross loss and LAE of $6,986,248 has been recorded in 2018 and $3,986,248 of ceded reinsurance recoverable has also been recorded. The net loss to CATIC for this one claim event is limited to CATIC's retention of $3.0 million. The total amount of premiums for assumed and ceded risks was less than 1% of title insurance premiums.

Reinsurance Assumed

Effective for policies with insurance dates of January 1, 2012 and forward, under the ATRA assumption agreement, CATIC assumes 32.5% of the ATRA group's losses in excess of certain retention limits ranging from $250,000 to $1,000,000 up to a maximum of $3 million per occurrence on a claims made basis. Under the assumption agreement, CATIC is not exposed to its own losses ceded to ATRA and is not exposed to losses in excess of $3 million per occurrence. There were no losses in excess of each individual underwriter's retention level during 2018 or 2017. ATRA-assumed reinsurance premiums received were $504,999 and $443,000 in 2018 and 2017, respectively.

7. DEBT

Notes Payable

The Company is a member of the Federal Home Loan Bank of Boston ("FHLBB"). Through its membership, on February 18, 2009, the Company borrowed $2.6 million from the FHLBB, for ten years at a fixed rate of 4.58%. The loan requires monthly payments of interest only through January 2019, with the outstanding principal balance totaling $2.6 million due in February 2019. The loan is collateralized by certain debt securities on deposit with the FHLBB (Note 3). See also Note 17, Subsequent Events.

On March 12, 2015, the Company completed a second borrowing from the FHLBB in the amount of $1,725,000. Of the amount borrowed, $1,721,988 was used to repay an existing mortgage note on the Company's primary operating facility. The second FHLBB borrowing is a 2.59% fixed-rate, 15-year, fully amortizing loan, collateralized by certain bonds on deposit with the FHLBB. As of December 31, 2018, the outstanding balance on the second FHLBB loan is $1,368,322

Interest expense for the years ended December 31, 2018 and 2017 totaled $160,505 and $163,449, respectively.

The following table sets forth required payments of principal due under the terms of the Company's notes payable for the years ending December 31:

2019	$ 2,704,028
2020	106,890
2021	109,953
2022	113,104
2023	116,344
2024 and thereafter	818,003
	$ 3,968,322

8. BENEFIT PLANS

401(k) Savings and Profit-Sharing Plan

The Company has a 401(k) savings and profit-sharing plan that covers substantially all employees subject to age and service requirements. The Company matches a portion of each employee's contributions to the plan and may also provide for additional, discretionary profit-sharing contributions. Company matching contributions to the 401(k) plan for the years ended December 31, 2018 and 2017 totaled $668,905 and $529,278, respectively. There were no discretionary profit-sharing contributions to the 401(k) plan for the years ended December 31, 2018 and 2017.

Defined Benefit Plan

The Company maintains a noncontributory defined benefit retirement plan. Effective July 31, 1993, the Company froze the plan with no further accrual of future benefits and no additional participants entering the plan. The Company's funding policy is to contribute annually an amount within the permitted ranges as determined by the plan's independent, third-party actuary. As of December 31, 2018 and 2017, the assets of the plan are generally invested in two group pension contracts with a domestic life insurance company and in various mutual fund investments.

For the years 2018 and 2017, the Company used a rate of 6.25%% in calculating the expected long-term rate of return on plan assets. At December 31, 2018 and 2017, the Company used rates of 3.9% and 3.3%, respectively, in calculating the discount on the plan benefit obligation.

The following tables set forth the components of the net periodic pension cost (benefit) charged or credited to expense or directly to net assets:

	2018	2017
Cost recognized as expense		
Interest cost	$ 49,328	$ 52,886
Expected return on plan assets	(23,477)	(12,658)
Amortization of actuarial net loss	42,435	40,120
Amortization of transition assets	(4,127)	(4,127)
	$ 64,159	$ 76,221
(Benefit) cost charged or credited directly to accumulated other comprehensive income (loss)		
Actuarial loss	$ (189,969)	$ 130,376
Expected return on plan assets less than actual return on plan assets	135,231	(48,660)
Amortization of actuarial net loss	(42,435)	(40,120)
Amortization of transition assets	4,127	4,127
	(93,046)	45,723
Deferred income tax expense (benefit)	19,540	(15,545)
	$ (73,506)	$ 30,178

The following table sets forth the changes in the plan benefit obligation, the changes in the fair value of plan assets and the changes in the unfunded status of the plan's benefit obligation, which is the difference between the plan's benefit obligation and the fair value of its assets, for the years ended December 31, 2018 and 2017:

	2018	2017
Interest cost	$ 49,328	$ 52,886
Actuarial (gain) loss	(189,969)	130,376
Benefits paid	(122,857)	(137,398)
Change in plan benefit obligation	(263,498)	45,864
Benefit obligation - beginning of year	1,564,787	1,518,923
Benefit obligation - end of year	$ 1,301,289	$ 1,564,787
Actual return on plan assets	$ (111,754)	$ 61,318
Employer contributions	128,107	89,016
Benefits paid	(122,857)	(137,398)
Change in fair value of plan assets	(106,504)	12,936
Fair value of plan assets - beginning of year	980,964	968,028
Fair value of plan assets - end of year	$ 874,460	$ 980,964

	2018	2017
Employer contribution	$ 128,107	$ 89,016
Cost recognized in operations	(64,159)	(76,221)
Benefit (cost) recognized in other comprehensive income	93,046	(45,723)
	156,994	(32,928)
Unfunded status - beginning of year	(583,823)	(550,895)
Unfunded status - end of year	$ (426,829)	$ (583,823)

The unfunded status of the plan is included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

The following table sets forth the components of the plan's funded status recognized directly in accumulated other comprehensive income (loss). The estimated pre-tax amount that will be amortized as a charge to expense in 2019 is approximately $4,127.

	2018	2017
Cumulative actuarial net loss	$ (759,491)	$ (856,664)
Net transition asset	16,827	20,954
	(742,664)	(835,710)
Deferred income tax asset	155,959	175,499
	$ (586,705)	$ (660,211)

The following table sets forth the plan investments measured at fair value on a recurring basis using Level 1, 2 and 3 inputs as of December 31, 2018 and 2017:

	2018			2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Equity mutual funds	$ 439,809	$ -	$ -	$ 468,906	$ -	$ -
Debt funds and exchange traded funds	-	215,022	-	-	249,884	-
Guaranteed investment contracts	-	-	219,629	-	-	262,174
	$ 439,809	$ 215,022	$ 219,629	$ 468,906	$ 249,884	$ 262,174

The following table sets forth the plan's investments which are measured at fair value using Level 3 inputs as of December 31, 2018 and 2017 and the changes in the fair value of investments measured at fair value on a recurring basis using Level 3 inputs for the years ended December 31, 2018 and 2017:

	2018	2017
Guaranteed investment contracts		
Change in fair value	$ (24,017)	$ (3,304)
Dividends received and reinvested	3,294	2,359
Fees paid	(3,647)	(3,689)
Benefits paid	(18,175)	(31,017)
	(42,545)	(35,651)
Balance - beginning of year	262,174	297,825
Balance - end of year	$ 219,629	$ 262,174

As of December 31, 2018 and 2017, the plan's equity securities are measured based upon quoted prices for identical assets in active markets, the plan's debt securities are measured based upon quoted prices for similar assets in active markets and the plan's investment in a guaranteed investment contract is valued using unobservable inputs.

At December 31, 2018, estimated future benefit payments expected to be paid by the Company through 2027 are as follows:

Years Ending December 31,	
2019	$ 120,000
2020	120,000
2021	110,000
2022	110,000
2023	110,000
2024 through 2028	470,000

Voluntary Succession Retirement Program

On October 18, 2013, the Board of Directors of the Company adopted the 2013 CATIC Voluntary Succession and Retirement Program, which became effective the same day. The plan provides non-elective tax-deferred compensation benefits to eligible employees, payable on stated dates provided in each individual agreement, subject to certain vesting conditions, and forms an integral part of executive succession planning for the Company. The plan is intended to be a deferred compensation plan and is an "employee pension benefit plan" within the meaning of ERISA. For the years ended December 31, 2018 and 2017, the Company recognized expenses totaling $186,910 and $543,116, respectively, for the present value of the earned benefits which is included in compensation and benefits in the accompanying consolidated statements of comprehensive loss and change in net assets. At December 31, 2018 and 2017, the Company has a liability of $1,105,777 and $1,158,244, respectively, which is included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. A rabbi trust has been established to partially secure primarily corporate owned life insurance policies for future benefit payments, which total $1,243,587 and $911,945 at December 31, 2018 and 2017, respectively.

9. INCOME TAXES

Income tax expense (benefit) applicable to net income, comprehensive loss and changes in net assets was as follows:

	2018	2017
Current income taxes		
Federal	$ -	$ -
State	11,219	18,100
	11,219	18,100
Deferred income tax expense	279,326	972,422
	290,545	990,522
Deferred income tax expense (benefit) applicable to other comprehensive income (loss)		
Change in unrealized gains on investments	(370,150)	30,118
Change in defined benefit plan liability	19,540	(15,545)
	(350,610)	14,573
Total income tax expense (benefit) applicable to comprehensive loss	$ (60,065)	$ 1,005,095

Income tax expense (benefit) applicable to net loss differs from that which would be obtained by applying the statutory federal income tax rate of 34% to income before taxes primarily due to the effect of increases in the valuation allowance ($1.1 million) and permanent differences between book and taxable income ($0.2 million) for 2018, and the enactment of the Tax Act ($1.8 million), decreases in the valuation allowance ($0.8 million) and permanent differences between book and taxable income ($0.1 million) for 2017.

Deferred income tax assets and liabilities arising from temporary differences between financial accounting income and taxable income and the tax character of such differences consist of the following at December 31, 2018 and 2017:

	2018	2017
Deferred tax assets		
Ordinary		
Policy claims and loss adjustment expenses	$ -	$ 242,340
Net operating loss carryforwards	3,633,456	2,646,485
Defined benefit plan cost adjustment	155,959	175,499
Voluntary succession retirement program	232,213	193,852
Compensated absences and retirement contracts	54,390	44,498
Tax credit carryforwards	17,160	17,160
Other	44,100	48,597
Capital		
Unrealized loss on investments charged to accumulated other comprehensive income (loss)	292,683	-
	4,429,961	3,368,431
Valuation allowance	(2,529,189)	(1,424,201)
	1,900,772	1,944,230
Deferred tax liabilities		
Ordinary		
Policy claims and loss adjustment expenses	15,858	-
Depreciation	104,952	156,732
Prepaid expenses	100,876	102,229
Capital		
Unrealized gains on investments charged to accumulated other comprehensive income (loss)	-	77,467
Total deferred tax liabilities	221,686	336,428
Net deferred tax assets	$ 1,679,086	$ 1,607,802

As of December 31, 2018, the Company had the following federal net operating loss carryforwards available for tax purposes:

Year of Origin	Year of Expiration	Amount
2008	2028	$ 1,129,000
2010	2030	3,928,000
2011	2031	2,951,000
2013	2033	900,000
2014	2034	3,273,000
2017	2037	418,000
2018	2038	4,699,000
		$ 17,298,000

As of December 31, 2018, the Company has no federal income taxes incurred in prior years available for recoupment in the event of future losses.

The Company maintains a valuation allowance when it is more likely than not that all or a portion of a deferred tax asset will not be realized based on consideration of all available evidence. Assumptions, judgments and estimates relative to the value of the Company's deferred tax assets also take into account predictions of the amount and the categories of future taxable income, carryback and carryforward periods and tax strategies which could affect the realization of a deferred tax asset. As of December 31, 2018, the Company concluded that it was more likely than not to realize certain deferred tax assets within the near term totaling approximately $1.9 million compared to $1.9 million in the prior year. The valuation allowance increased $1.1 million as a result of weighing all positive and negative evidence, including trends in the Company's taxable income through December 31, 2018. Comparatively, in 2017, the valuation allowance decreased $1.8 million due to the rate change resulting from the Tax Act and increased $0.2 million as a result of weighing all positive and negative evidence, including trends in the Company's taxable income through December 31, 2017.

The Company files a consolidated federal income tax return. The Company has a written tax agreement, approved by its Board of Directors, which sets forth the manner in which the total combined federal income tax is allocated to each entity which is party to the consolidation. Pursuant to this agreement, the Company has the right to recover federal income taxes paid in prior years in the event of net losses that it may incur, or to recover federal income taxes from its net losses carried forward, which offset future net income subject to federal income taxes.

The following entities are included in the consolidated federal income tax return:

CATIC Financial, Inc.
Connecticut Attorneys Title Insurance Company (designated tax parent)
CATIC Acquired Properties, LLC
CATIC Exchange LLC
CATIC Exchange Facilitator, Inc.
CATICPro, Inc.

Eastern Attorneys Services, Inc.
CATIC Title Insurance Company
CATIC Insurance (VT) Ltd.

10. DIVIDENDS

CATIC's ability to pay dividends to Financial, without prior written consent of the Vermont Department of Financial Regulation ("VT DFR"), is limited by the laws of the State of Vermont. Under such laws, CATIC may pay dividends in an amount equal to the lesser of a) 10% of its statutory capital and surplus as of the preceding year-end or b) the aggregate amount of net income, less realized capital gains and dividends paid during the preceding three-year period. As filed with the VT DFR, CATIC reported statutory capital and surplus of $26,897,097 as of December 31, 2018, and the aggregate amount of net income, less realized capital gains and dividends paid during the preceding three-year period, would require CATIC to request permission from the VT DFR for an extraordinary dividend in 2019.

CATICO may not pay a dividend to Financial without prior consent of the New Jersey Insurance Regulator. Further, CATICO cannot pay interest on surplus notes to Financial without the prior consent of the New Jersey Insurance Regulator. There were no dividends paid by CATICO during 2018 or 2017.

In 2018 and 2017, EASI paid dividends of $500,000 and $550,000, respectively, to Financial.

11. CASH FLOWS

The following table provides a reconciliation of net loss to net cash provided by operating activities for the years ended December 31, 2018 and 2017.

	2018	2017
Net loss	$ (5,780,580)	$ (1,341,843)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	1,054,090	909,780
Amortization of bond (discount) premium	88,165	139,675
Deferred income taxes	279,326	972,422
Net realized gains on investments	(435,196)	(1,046,871)
(Increase) decrease in operating assets		
Accounts, notes and other receivables	(456,456)	(84,342)
Accrued investment income	70,569	44,785
Prepaid expenses	10,131	(265,391)
Federal income taxes recoverable	(21,519)	3,611
Other assets	(152,455)	(64,885)
Increase (decrease) in operating liabilities		
Policy claims and loss adjustment expenses	5,015,556	2,086,164
Accounts payable and accrued expenses	681,586	342,013
Deferred revenue	(37,506)	94,010
Net cash provided by operating activities	$ 315,711	$ 1,789,128

12. ESCROW AND REVERSE LIKE-KIND EXCHANGE TRANSACTIONS

Through CATIC and CATICO, the Company administers escrow and trust deposits representing undisbursed amounts received for indemnities against specific title risks. The amount of escrow assets being held by CATIC and CATICO totaled $10,707,762 and $1,034,034, respectively, at December 31, 2018 and $10,162,056 and $232,649, respectively, at December 31, 2017. The escrow amounts are not considered assets or liabilities of the Company and are, therefore, excluded from the accompanying consolidated balance sheets.

Through CATIC Exchange, LLC and CATICPro, the Company facilitates tax-deferred property exchanges for customers pursuant to Section 1031 of the Internal Revenue Code. Acting as a qualified intermediary, both entities hold the proceeds from sales transactions until a qualifying acquisition occurs, thereby assisting its customers in deferring the recognition of taxable income. The amount of escrow assets being held by both entities at December 31, 2018 and 2017, is $19,144,706 and $42,280,770, respectively. The escrow amounts are not considered assets or liabilities of the Company and are, therefore, excluded from the accompanying consolidated balance sheets.

13. LEASES

The Company is obligated under leases for office space and computer equipment expiring at various dates through 2021. The leases also require the Company to pay its pro-rata share of operating expense increases. Rent expense under these operating leases totaled $661,793 and $503,989 in 2018 and 2017, respectively, and is recorded in other general and administrative expenses in the consolidated statements of comprehensive loss and change in net assets.

At December 31, 2018, two third-party tenants are obligated to the Company under real estate subleases expiring at various dates through 2021. Total rental income under these leases was $179,659 and $178,792 for 2018 and 2017, respectively, and is netted against other general and administrative expenses in the consolidated statements of comprehensive loss and change in net assets.

Future minimum lease payments and rental income are as follows:

Year Ending December 31,	Lease Expense	Rental Income	Net Expense
2019	$ 492,810	$ 180,775	$ 312,035
2020	486,106	154,393	331,713
2021	481,091	65,426	415,665
2022 and thereafter	716,341	95,349	620,992
	$ 2,176,348	$ 495,943	$ 1,680,405

14. RELATED PARTIES

Certain agents of CATIC are also directors of CATIC. Except for two third-party directors, all other board members of Financial are CATIC agents.

Agents receive title insurance commissions in the ordinary course of business. During the periods covered by these consolidated financial statements, no agent received commissions of more than one percent of total commission expense. There were no amounts loaned to any directors or officers during the two years covered by these financial statements.

15. CATIC TITLE INSURANCE COMPANY/MANAGEMENT'S PLAN

Per an order of the New Jersey Department of Banking and Insurance ("NJDOBI") dated July 26, 2011, effective July 27, 2011, CATICO (formerly known as New Jersey Title Insurance Company) ceased writing policy commitments or issuing closing protection letters to lenders, with the effect of having CATICO cease and desist incurring further liability for any policies ("Consent Order"). Pursuant to this Consent Order, commitments and closing protection letters issued prior to July 27, 2011 were honored by CATICO.

Between July 27, 2011 and March 7, 2014, CATICO and Financial coordinated with the Commissioner of NJDOBI and a Deputy Administrative Supervisor appointed by NJDOBI, to facilitate a solvent run-off of CATICO's business operations. On March 7, 2014, CATICO entered into a retroactive reinsurance agreement with CIVL (the "Retroactive Reinsurance Agreement" or the "Agreement"). Under the terms of the Agreement, CIVL agreed to fully reinsure all of CATICO's policy liabilities, including all unpaid loss and loss adjustment expenses, all monies escrowed or retained for the account of others in consideration of a CATICO policy of title insurance being issued, and all monies due under CATICO reinsurance contracts. In exchange, CATICO agreed to transfer to CIVL all of its cash, invested assets and other assets other than those necessary to settle CATICO's other liabilities and ongoing expenses.

Also on March 7, 2014, CATICO, together with Financial, CATIC and CIVL, consented to a Modified Consent Order of Administrative Supervision and Termination of the Memorandum of Understanding issued by the Commissioner of the NJDOBI (the "Modified Consent Order"). The Modified Consent Order modified certain terms of the Consent Order, requires CATICO to maintain a minimum level of capital and surplus of $200,000, and grants CATICO certain permitted accounting practices used in its statutory filings with the NJDOBI.

In 2016, CATICO approached NJDOBI with a request seeking permission to write new policies and to amend the Modified Consent Order accordingly. On January 25, 2017, NJDOBI and CATICO entered into Modified Consent Order C17-101 that allows CATICO to commence writing new business upon satisfaction of certain conditions. Those conditions include CATICO remaining under administrative supervision, complying with certain conditions required by NJDOBI which include limits on net written premiums, CATICO entering into appropriate reinsurance agreements, CATICO providing appropriate insurance for agent defalcations, and adhering to certain enhanced reporting requirements to NJDOBI.

The accompanying consolidated financial statements of CATIC Financial, Inc. and Subsidiaries include the financial position and results of operations and cash flows of CATICO as of and for the years ended December 31, 2018 and 2017 and have been prepared assuming that CATICO will continue as a going concern. Settlement of title insurance losses incurred on policies issued prior to July 27, 2011 remain contingent upon the financial solvency of CIVL and CATIC's ability to maintain CIVL's capital and surplus at the levels required by CIVL's domiciliary insurance commissioner. CATICO's management continues to oversee the run-off of policy losses incurred on policies issued prior to July 27, 2011. The accompanying consolidated financial statements do not include any adjustments to the financial position or results of operations of CATICO that might result from the outcome of these uncertainties.

16. LITIGATION

In the ordinary course of business, claims have been made against the Company. Certain of the claims are insured but subject to varying deductibles and certain claims may be uninsured. The amount of liability, if any, from these claims cannot be estimated at this time, but management is of the opinion that the outcome of the claims will not have a material effect on the Company's financial position or operations.

17. SUBSEQUENT EVENTS

Subsequent events were evaluated through May 14, 2019, which is the date the consolidated financial statements were available to be issued.

As reported in Note 7, Debt, CATIC had a $2.6 million classic advance due February 19, 2019 to the FHLBB. Such loan was repaid by the Company by executing a new short-term advance from the FHLBB of $4.9 million, of which $2.3 million is due and payable on July 17, 2019 and $2.6 million is due and payable on October 19, 2020. The additional $2.3 million in borrowings has been designated to pay certain retained claims.