Consolidated Financial Statements and Report of Independent Certified Public Accountants

CATIC Financial, Inc. and Subsidiaries

December 31, 2019 and 2018

Contents

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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, 2019 and 2018, and the related consolidated statements of comprehensive income (loss) and changes 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 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.

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

Grant Thornton

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, 2019 and 2018, 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, 2010 and years ended December 31, 2010 through 2018, 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
June 1, 2020

CATIC Financial, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31,

ASSETS		**2019**		**2018**
Investments				
Debt securities				
Held-to-maturity, at amortized cost	$	3,725,386	$	6,087,663
Available-for-sale, at fair value		35,449,147		32,253,136
Equity securities, at fair value		7,980,920		9,492,651
Total investments		47,155,453		47,833,450
Cash and cash equivalents		17,357,938		14,246,390
Accounts, notes and other receivables, net		1,781,300		1,698,642
Accrued investment income		242,870		275,115
Reinsurance recoverable on paid and unpaid policy claims and loss adjustment expenses		1,369,833		5,025,248
Prepaid expenses		884,763		525,703
Federal income taxes recoverable		36,926		63,537
Deferred income tax assets		1,680,576		1,679,086
Premises, equipment and software, net		2,679,563		3,035,271
Title plant		418,373		418,373
Other assets		753,361		735,679
Total assets	$	74,360,956	$	75,536,494
LIABILITIES AND NET ASSETS				
LIABILITIES				
Policy claims and loss adjustment expense reserves	$	31,609,156	$	35,378,162
Accounts payable and accrued expenses		4,562,270		4,737,240
Deferred revenue		426,274		304,129
Notes payable		3,864,293		3,968,322
Total liabilities		40,461,993		44,387,853
NET ASSETS				
Unassigned		33,951,621		32,836,393
Accumulated other comprehensive income (loss)		(52,658)		(1,687,752)
Total net assets		33,898,963		31,148,641
Total liabilities and net assets	$	74,360,956	$	75,536,494

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

CATIC Financial, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) AND CHANGE IN NET ASSETS

Years ended December 31,

	2019	2018
REVENUES		
Title insurance premiums	$ 130,096,978	$ 119,334,155
Title and other service fees	10,031,362	7,903,997
Net investment income	1,553,378	1,383,055
Net unrealized gains on equity securities	1,236,668	-
Net realized gains on investments	224,646	435,196
Other revenue	2,204,100	1,447,352
Total revenues	145,347,132	130,503,755
EXPENSES		
Title insurance commissions	88,312,202	81,109,631
Compensation and benefits	27,914,838	27,566,337
Provision for policy claims and loss adjustment expenses	6,862,298	9,645,647
Other general and administrative expenses	16,506,252	13,849,887
Premium taxes	2,904,895	2,607,693
Depreciation and amortization	1,081,171	1,054,090
Interest	155,584	160,505
Total expenses	143,737,240	135,993,790
Income (loss) before income tax (benefit) expense	1,609,892	(5,490,035)
Income tax (benefit) expense	(213,675)	290,545
Net income (loss)	1,823,567	(5,780,580)
Other comprehensive income (loss)		
Unrealized gains (losses) on investments (Note 3)		
Gross unrealized gains (losses) on investments	1,137,768	(1,327,423)
Less: Reclassification of net realized gains on investments	(104)	(435,196)
	1,137,664	(1,762,619)
Deferred income tax expense (benefit)	238,909	(370,150)
	898,755	(1,392,469)
Change in defined benefit plan liability		
Pension income	35,443	93,046
Deferred income tax expense	7,443	19,540
	28,000	73,506
Net other comprehensive income (loss)	926,755	(1,318,963)
Comprehensive income (loss)	2,750,322	(7,099,543)
Net assets at beginning of year	31,148,641	38,248,184
Net assets at end of year	$ 33,898,963	$ 31,148,641

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

CATIC Financial, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums and other title insurance service fees received	$ 140,167,827	$ 126,744,190
Interest and dividends received	1,460,440	1,541,789
Other operating receipts	2,204,100	1,447,352
Commissions and other expenses paid	(136,154,456)	(124,594,286)
Policy claims and loss adjustment expenses paid	(6,975,889)	(4,630,091)
Interest expense paid	(155,584)	(160,505)
Income taxes paid	(7,556)	(32,738)
Net cash provided by operating activities	538,882	315,711
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of debt securities	10,898,839	10,288,181
Proceeds from sales of equity securities	4,935,796	8,959,751
Purchases of premises, equipment and software	(725,463)	(972,360)
Purchases of equity securities	(1,962,855)	(8,506,480)
Purchases of debt securities	(10,469,622)	(5,734,117)
Net cash provided by investing activities	2,676,695	4,034,975
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(2,404,029)	(101,051)
Proceeds from issuance of notes payable	2,300,000	-
Net cash used in financing activities	(104,029)	(101,051)
Net increase in cash and cash equivalents	3,111,548	4,249,635
Cash and cash equivalents, beginning of year	14,246,390	9,996,755
Cash and cash equivalents, end of year	$ 17,357,938	$ 14,246,390

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

NOTE 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 11 offices in all six New England states and Florida, operating exclusively through a network of independent title agents. The Company also provides title insurance on residential and commercial properties in New Jersey, New York and Pennsylvania through its wholly owned subsidiary, CATIC Title Insurance Company ("CATICO").

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% quota share of a lawyers professional liability insurance program underwritten by a commercial property-casualty company which is endorsed and sponsored by CATIC.

Effective August 30, 2019, the Board of Directors approved a reorganization whereby CATIC Financial, Inc. contributed its ownership interest in EASI into CATIC. Following the contribution, EASI was dissolved. CATIC continues to provide the services that EASI previously rendered.

All intercompany accounts and transactions have been eliminated in consolidation.

NOTE 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 at December 31, 2019 and 2018.

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. Title and other insurance related service fees are recognized as revenue in the period in which the related services are performed.

Other revenues that are non-insurance related are recognized in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers,* in the period in which the services performed or the performance obligations are satisfied. ASC 606 was adopted by the Company on January 1, 2019. The adoption of ASC 606 did not impact the timing or amount of revenue recognized in the 2019 consolidated financial statements as compared to prior periods.

Deferred revenue represents advance payments for services. Deferred revenue totaled $426,274 and $304,129 at December 31, 2019 and 2018, respectively.

Investments

Debt Securities

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.

Unrealized gains and losses on available-for-sale debt securities 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.

Equity Securities

Equity securities are carried at fair value. As further described in Note 3, on January 1, 2019, the Company adopted FASB Accounting Standards Update ("ASU") 2016-01, *Financial Instruments – Overall (Subtopic 825.10)* ("ASU 2016-01"). ASU 2016-01 requires entities to measure equity instruments that do not result in consolidation and are not accounted for under the equity method at fair value, and to recognize any changes in fair value in net income, unless the investments qualify for the new measurement alternative. Upon adoption of ASU 2016-01, unrealized gains or losses on equity securities estimated to be temporary in nature and other-than-temporary impairments determined to be non-credit related, are reported directly in the consolidated statements of income. Prior to adoption, those unrealized gains and losses were reported in accumulated other comprehensive income or loss, a component of net assets. As a result of adopting ASU 2016-01, on January 1, 2019, the Company reclassified net unrealized losses on equity securities of $896,631 and the related net deferred tax benefit of $188,292 "Accumulated other comprehensive loss" to "Unassigned net assets"

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associates with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

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 2019 and 2018.

Premises, Equipment and Software

Premises, equipment and software are carried at cost, less accumulated depreciation and amortization. Furniture and equipment purchases of $2,500 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 $482,267 and $472,799 in 2019 and 2018, 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, 2019 and 2018 was $1,298,476 and $1,315,767, respectively.

Income and Premium Taxes

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, 2019 and 2018, 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, 2019 and 2018, the Company has determined that its assets and liabilities required to be measured and disclosed at fair value consist solely of equity securities, debt securities classified as available-for-sale and financial assets underlying the defined benefit plan.

NOTE 3 - INVESTMENTS

Details on carrying value and alternate value of the Company's debt and equity securities at December 31, 2019 and 2018 follow. Carrying value is amortized cost for held-to-maturity debt securities and fair value for equity securities and available-for-sale debt securities. Alternate values are fair value for held-to-maturity debt securities and cost for equity securities and available-for-sale debt securities.

	2019		2018	
	Carrying value	Alternate value	Carrying value	Alternate value
Held-to-maturity debt securities				
Tax-exempt securities	$ 760,869	$ 772,843	$ 2,790,418	$ 2,827,216
Government bonds	724,014	750,512	808,472	797,846
Corporate bonds	2,240,503	2,307,266	2,488,773	2,454,357
	$ 3,725,386	$ 3,830,621	$ 6,087,663	$ 6,079,419
Available-for-sale debt securities				
Tax-exempt securities	$ 4,522,725	$ 4,479,663	$ 3,580,960	$ 3,649,970
Government bonds	20,163,349	19,936,127	16,792,836	17,087,518
Corporate bonds	10,763,073	10,392,792	11,879,340	12,012,747
	$ 35,449,147	$ 34,808,582	$ 32,253,136	$ 32,750,235
Equity securities	$ 7,980,920	$ 7,639,883	$ 9,492,651	$ 10,389,282

The following table sets forth the unrealized gain and loss positions of the Company's investments at December 31, 2019 and 2018:

	2019		2018	
	Unrealized Gain	Unrealized Losses	Unrealized Gain	Unrealized Losses
Held-to-maturity debt securities				
Tax-exempt securities	$ 11,974	$ -	$ 39,348	$ (2,550)
Government bonds	26,498	-	5,646	(16,272)
Corporate bonds	66,763	-	-	(34,416)
	$ 105,235	$ -	$ 44,994	$ (53,238)
Available-for-sale debt securities				
Tax-exempt securities	$ 48,458	$ (5,396)	$ 3,617	$ (72,627)
Government bonds	257,285	(30,063)	36,415	(331,097)
Corporate bonds	370,306	(25)	32,971	(166,378)
	$ 676,049	$ (35,484)	$ 73,003	$ (570,102)
Equity securities	$ 422,144	$ (81,107)	$ 22,739	$ (919,370)

The following table reconciles changes in the unrealized gains and losses on investments included in other comprehensive income (loss) for the years ended December 31, 2019 and 2018.

	Unrealized Gains (Losses) from Available-for-sale Debt Securities	Unrealized Gains (Losses) from Equity Securities	Total
Balance, December 31, 2017	$ 216,239	$ 75,183	$ 291,422
Net unrealized losses	(770,819)	(991,800)	(1,762,619)
Deferred income tax benefit	(161,872)	(208,278)	(370,150)
Net change	(608,947)	(783,522)	(1,392,469)
Balance, December 31, 2018	(392,708)	(708,339)	(1,101,047)
Reclassification of net unrealized losses, net of tax, upon adoption of ASU 2016-01	-	708,339	708,339
Net unrealized gains	1,137,664	-	1,137,664
Deferred income tax expense	238,909	-	238,909
Net change	898,755	708,339	1,607,094
Balance, December 31, 2019	$ 506,047	$ -	$ 506,047

The following table sets forth, as of December 31, 2019, 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	$ -	$ -	$ -	$ -
Government bonds				
Corporate bonds	-	-	-	-
	$ -	$ -	$ -	$ -
Available-for-sale debt securities				
Tax-exempt securities	$ (5,396)	$ 1,685,595	$ -	$ -
Government bonds	(22,727)	4,993,524	(7,336)	3,443,917
Corporate bonds	(20)	176,519	(5)	100,012
	$ (28,143)	$ 6,855,638	$ (7,341)	$ 3,543,929
Equity securities	$ -	$ -	$ (81,107)	$ 2,421,531

During the years ended December 31, 2019 and 2018, 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, 2019 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	$ 1,008,278	$ 1,020,488	$ 5,617,962	$ 5,626,351
One to five years	2,247,196	2,323,935	16,090,329	16,438,498
Five to ten years	-	-	9,516,023	9,747,177
After ten years	469,912	486,198	3,584,268	3,637,121
	$ 3,725,386	$ 3,830,621	$ 34,808,582	$ 35,449,147

As of December 31, 2019 and 2018, debt securities classified as available-for-sale with an amortized cost of $3,755,897 and $1,009,565, respectively, were pledged as collateral to conduct title insurance business where required, and debt securities with an amortized cost of $4,295,290 and $3,648,113, 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, 2019 and 2018 were as follows:

	2019		2018	
	Realized gains	Realized losses	Realized gains	Realized losses
Available-for-sale debt securities	$ 24,190	$ (24,086)	$ 38,486	$ (26,758)
Equity securities	243,624	(19,082)	438,218	(14,750)
	$ 267,814	$ (43,168)	$ 476,704	$ (41,508)
Net realized investment gains	$ 224,646		$ 435,196	

Net investment income presented in the accompanying statements of comprehensive loss and change in net assets for the years ended December 31, 2019 and 2018 consists of the following:

	2019	2018
Interest and dividend income from		
Debt securities	$ 1,063,735	$ 1,153,014
Equity securities	268,240	370,317
Cash and cash equivalents	397,419	75,150
	1,729,394	1,598,481
Investment expenses	(176,016)	(215,426)
	$ 1,553,378	$ 1,383,055

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, 2019 and 2018:

	2019				2018			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Available-for-sale debt securities								
Tax-exempt securities	$ 4,522,725	$ -	$ 4,522,725	$ -	$ 3,580,960	$ -	$ 3,580,960	$ -
Government bonds	20,163,349	12,178,682	7,984,667	-	16,792,836	9,163,027	7,629,809	-
Corporate bonds	10,763,073	-	10,763,073	-	11,879,340	-	11,879,340	-
	35,449,147	12,178,682	23,270,465	-	32,253,136	9,163,027	23,090,109	-
Equity securities								
Mutual fund securities	5,312,055	5,312,055	-	-	6,880,762	6,880,762	-	-
Senior institutional loan fund*	2,668,865				2,611,889			
	7,980,920	5,312,055	-	-	9,492,651	6,880,762	-	-
	$ 43,430,067	$ 17,490,737	$ 23,270,465	$ -	$ 41,745,787	$ 16,043,789	$ 23,090,109	$ -

* The senior institutional loan fund is measured using the net asset value ("NAV") 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, 2019 and 2018, 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 2019.

In accordance with FASB ASC 820-10, certain investments that are measured using the NAV per share practical expedient have not been classified in the fair value hierarchy. As of December 31, 2019 and 2018, the Company holds an investment in a senior institutional loan fund totaling $2,668,864 and $2,611,889, respectively, which is measured using NAV 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.

NOTE 4 - PREMISES, EQUIPMENT AND SOFTWARE

Premises, equipment and software at December 31, 2019 and 2018 are summarized by major classification as follows:

	2019	2018
Land and land improvements	$ 403,162	$ 403,162
Building and improvements	5,242,931	5,242,962
Furniture and equipment	6,049,582	5,828,558
Internal-use software	4,052,746	3,570,479
	15,748,421	15,045,161
Less: Accumulated depreciation and amortization	13,068,858	12,009,890
	$ 2,679,563	$ 3,035,271

Depreciation and amortization expense of premises, equipment and software was $1,081,171 and $1,054,090 for the years ended December 31, 2019 and 2018, respectively.

NOTE 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, 2019 and 2018 is summarized as follows:

	2019	2018
Balance, beginning of year	$ 35,378,162	$ 25,437,358
Less: reinsurance recoverable on unpaid losses	5,025,248	100,000
Net balance, beginning of year	30,352,914	25,337,358
Incurred related to		
Current year	6,916,429	7,284,451
Prior years	(32,757)	2,361,196
	6,883,672	9,645,647
Paid related to		
Current year	227,005	380,117
Prior years	6,770,258	4,249,974
	6,997,263	4,630,091
Net balance, end of year	30,239,323	30,352,914
Plus: reinsurance recoverable on unpaid losses	1,369,833	5,025,248
Balance, end of year	$ 31,609,156	$ 35,378,162

Policy claims and loss adjustment expense reserves as of December 31, 2019 and 2018 include known claim reserves of $4,508,152 and $9,271,166, respectively. Reinsurance recoverables related to known claim reserves total $1,328,833 and $3,986,248 as of December 31, 2019 and 2018, respectively.

The provision for prior year policy claims and loss adjustment expenses decreased by $32,757 in 2019. The decrease was primarily the result of losses returning back to historical averages after the emergence of higher than anticipated losses at CATIC and CATICO during 2018.

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 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, 2019 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, 2010 to 2018 and periods prior to 2010 is presented as supplementary information.

CATIC

Incurred loss and allocated loss adjustment expenses

	Year ended December 31,										December 31, 2019	
Policy Year	**2010***	**2011***	**2012***	**2013***	**2014***	**2015***	**2016***	**2017***	**2018***	**2019**	**Total of IBNR liabilities plus expected development on reported claims**	**Cumulative number of reported claims**
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	$ 5,139,000	$ 234,000	222
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	1,938,000	303,000	181
2012	-	-	3,741,000	3,028,000	2,530,000	1,961,000	1,647,000	1,452,000	1,552,000	1,574,000	330,000	164
2013	-	-	-	3,934,000	3,184,000	2,750,000	1,979,000	1,929,000	1,598,000	1,739,000	380,000	175
2014	-	-	-	-	3,485,000	2,969,000	2,456,000	2,180,000	2,000,000	1,729,000	588,000	171
2015	-	-	-	-	-	3,840,000	3,035,000	2,686,000	2,520,000	2,763,000	1,023,000	136
2016	-	-	-	-	-	-	4,633,000	4,030,000	5,188,000	5,065,000	1,863,000	175
2017	-	-	-	-	-	-	-	5,599,000	5,827,000	5,464,000	3,351,000	123
2018	-	-	-	-	-	-	-	-	6,845,000	6,656,000	4,620,000	77
2019										6,243,000	6,039,000	20
									Total	$ 38,310,000		

*Amounts unaudited

Cumulative paid losses and loss adjustment expenses

	Year ended December 31,									
Policy Year	**2010***	**2011***	**2012***	**2013***	**2014***	**2015***	**2016***	**2017***	**2018***	**2019**
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	$ 4,860,000
2011	-	64,000	266,000	387,000	707,000	968,000	1,099,000	1,382,000	1,524,000	1,605,000
2012	-	-	40,000	101,000	304,000	554,000	725,000	920,000	1,105,000	1,186,000
2013	-	-	-	24,000	192,000	420,000	625,000	870,000	992,000	1,174,000
2014	-	-	-	-	118,000	316,000	570,000	730,000	951,000	1,065,000
2015	-	-	-	-	-	48,000	219,000	476,000	911,000	1,396,000
2016	-	-	-	-	-	-	179,000	589,000	1,016,000	2,976,000
2017	-	-	-	-	-	-	-	134,000	533,000	1,935,000
2018	-	-	-	-	-	-	-	-	365,000	1,739,000
2019										176,000
									Total	$ 18,112,000

All outstanding liabilities before 2010*	$ 2,643,000
Unallocated loss adjustment expenses	3,550,000
Liabilities for claims and claims adjustment expenses	$ 26,391,000

*Amounts unaudited

CATICO

Incurred loss and allocated loss adjustment expenses

	Year ended December 31,										December 31, 2019	
Policy Year	2010*	2011*	2012*	2013*	2014*	2015*	2016*	2017*	2018*	2019	Total of IBNR liabilities plus expected development on reported claims	Cumulative number of reported claims
2010	$2,846,000	$4,546,000	$5,058,000	6,370,000	$7,043,000	$7,105,000	$7,875,000	$8,251,000	$8,433,000	$ 8,373,000	$ 454,000	132
2011	-	4,739,000	4,054,000	3,661,000	3,793,000	3,828,000	3,682,000	3,952,000	3,715,000	3,726,000	155,000	139
2012	-	-	-	-	-	-	-	-	-	-		
2013	-	-	-	-	-	-	-	-	-	-		
2014	-	-	-	-	-	-	-	-	-	-		
2015	-	-	-	-	-	-	-	-	-	-		
2016	-	-	-	-	-	-	-	-	-	-		
2017	-	-	-	-	-	-	-	2,000	1,000	2,000		
2018	-	-	-	-	-	-	-	-	60,000	50,000		
2019	-	-	-	-	-	-	-	-	-	226,000		
									Total	$ 12,377,000		

*Amounts unaudited

Cumulative paid losses and loss adjustment expenses

	Year ended December 31,									
Policy Year	2010*	2011*	2012*	2013*	2014*	2015*	2016*	2017*	2018*	2019
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	$ 7,746,000
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	3,430,000
2012	-	-	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	-	-	-	-
2014	-	-	-	-	-	-	-	-	-	-
2015	-	-	-	-	-	-	-	-	-	-
2016	-	-	-	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-	-	-	-
									Total	$ 11,176,000
									All outstanding liabilities before 2010*	$ 1,516,000
									Unallocated loss adjustment expenses	374,000
									Liabilities for claims and claims adjustment expenses	$ 3,091,000

*Amounts unaudited

The following is supplementary information about average historical claims duration presented separately for CATIC and CATICO as of December 31, 2019:

Average annual percentage payout of incurred claims by age (unaudited)

Years	1	2	3	4	5	6	7	8	9	10
Annual payout - CATIC	7.7%	12.6%	12.6%	14.2%	8.7%	8.7%	6.6%	4.9%	4.0%	3.0%
Annual payout - CATICO	8.0%	12.2%	13.7%	17.9%	5.8%	7.2%	8.8%	6.4%	2.9%	3.3%

NOTE 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 seven Lloyd’s syndicates. For policy years 2019 and 2018, 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 an 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.

Effective October 1, 2019, CATICO joined two other regional title insurers in a risk purchasing group with ATRA. ATRA executed individual treaties with three Lloyd’s syndicates. For policy year 2019, CATICO retains the first $50,000 of every policy risk, cedes the next $950,000 to CATIC, and cedes the next $4 million in excess of $1 million to the syndicates and cedes the next $2 million in excess of $5 million to CATIC.

Prior to July 1, 2019, CATIC retained risk above $20 million to $30 million and facultatively reinsured any risk above $30 million to $75 million. Effective July 1, 2019, CATIC facultatively reinsures any risk above $20 million to $75 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. Total unpaid loss and LAE and ceded reinsurance recoverable relating to this loss was $1,328,833 as of December 31, 2019.

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 2019 or 2018. ATRA-assumed reinsurance premiums received were $437,981 and $504,999 in 2019 and 2018, respectively. CATIC does not assume any losses under the aforementioned CATICO – ATRAms group.

NOTE 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 10 years at a fixed rate of 4.58%. The loan required monthly payments of interest only through January 2019, with the outstanding principal balance totaling $2.6 million due in February 2019. The loan was collateralized by certain debt securities on deposit with the FHLBB (Note 3). During 2019, the loan was repaid by the Company by executing a new short-term advance from the FHLBB of $4.9 million. The Company extended the advance on two occasions during 2019, until ultimately $2.3 million was due and paid on December 27, 2019, leaving $2.6 million due and payable on October 19, 2020.

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, 2019, the outstanding balance on the second FHLBB loan is $1,264,293.

Interest expense for the years ended December 31, 2019 and 2018 totaled $164,258 and $160,505, 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:

2020	$	2,706,890
2021		109,953
2022		113,104
2023		116,344
2024		123,159
2025 and thereafter		694,843
	$	3,864,293

NOTE 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, 2019 and 2018 totaled $787,969 and $668,905, respectively. There were no discretionary profit-sharing contributions to the 401(k) plan for the years ended December 31, 2019 and 2018.

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, 2019 and 2018, 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 2019 and 2018, the Company used a rate of 6.5% and 6.25%, respectively, in calculating the expected long-term rate of return on plan assets. At December 31, 2019 and 2018, the Company used rates of 2.9% and 3.9%, 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:

	2019	2018
Cost recognized as expense		
Interest cost	$ 48,410	$ 49,328
Expected return on plan assets	(18,655)	(23,477)
Amortization of actuarial net loss	39,018	42,435
Amortization of transition assets	(4,127)	(4,127)
	$ 64,646	$ 64,159
(Benefit) cost charged or credited directly to accumulated other comprehensive income (loss)		
Actuarial loss	$ 89,411	$ (189,969)
Expected return on plan assets less than actual return on plan assets	(89,963)	135,231
Amortization of actuarial net loss	(39,018)	(42,435)
Amortization of transition assets	4,127	4,127
	(35,443)	(93,046)
Deferred income tax expense (benefit)	7,443	19,540
	$ 28,000	$ (73,506)

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, 2019 and 2018:

	2019	2018
Interest cost	$ 48,410	$ 49,328
Actuarial (gain) loss	89,411	(189,969)
Benefits paid	(150,098)	(122,857)
Change in plan benefit obligation	(12,277)	(263,498)
Benefit obligation - beginning of year	1,301,289	1,564,787
Benefit obligation - end of year	$ 1,289,012	$ 1,301,289
Actual return on plan assets	$ 108,618	$ (111,754)
Employer contributions	105,309	128,107
Benefits paid	(150,098)	(122,857)
Change in fair value of plan assets	63,829	(106,504)
Fair value of plan assets - beginning of year	874,460	980,964
Fair value of plan assets - end of year	$ 938,289	$ 874,460

	2019	2018
Employer contribution	$ 105,309	$ 128,107
Cost recognized in operations	(64,646)	(64,159)
Benefit (cost) recognized in other comprehensive income	35,443	93,046
	76,106	156,994
Unfunded status - beginning of year	(426,829)	(583,823)
Unfunded status - end of year	$ (350,723)	$ (426,829)

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 2020 is approximately $4,127.

	2019	2018
Cumulative actuarial net loss	$ (719,921)	$ (759,491)
Net transition asset	12,700	16,827
	(707,221)	(742,664)
Deferred income tax asset	148,516	155,959
	$ (558,705)	$ (586,705)

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, 2019 and 2018:

	2019			2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Equity mutual funds	$ 497,900	$ -	$ -	$ 439,809	$ -	$ -
Debt funds and exchange traded funds	-	206,499	-	-	215,022	-
Guaranteed investment contracts	-	-	233,890	-	-	219,629
	$ 497,900	$ 206,499	$ 233,890	$ 439,809	$ 215,022	$ 219,629

The following table sets forth the plan's investments which are measured at fair value using Level 3 inputs as of December 31, 2019 and 2018 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, 2019 and 2018:

	2019	2018
Guaranteed investment contracts		
Change in fair value	$ 28,119	$ (24,017)
Dividends received and reinvested	286	3,294
Fees paid	(3,584)	(3,647)
Benefits paid	(10,560)	(18,175)
	14,261	(42,545)
Balance - beginning of year	219,629	262,174
Balance - end of year	$ 233,890	$ 219,629

As of December 31, 2019 and 2018, 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, 2019, estimated future benefit payments expected to be paid by the Company through 2028 are as follows:

Years ending December 31,		
2020	$	120,000
2021		110,000
2022		110,000
2023		110,000
2024		100,000
2025 through 2028		440,000

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, 2019 and 2018, the Company recognized expenses totaling $169,839 and $186,910, 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, 2019 and 2018, the Company has a liability of $1,042,616 and $1,105,777, 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 $1,895,470 and $1,243,587 at December 31, 2019 and 2018, respectively.

NOTE 9 - INCOME TAXES

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

	2019	2018
Current income taxes		
Federal	$ 11,091	$ -
State	23,076	11,219
	34,167	11,219
Deferred income tax (benefit) expense	(247,842)	279,326
	(213,675)	290,545
Deferred income tax expense (benefit) applicable to other comprehensive income (loss)		
Change in unrealized gains on investments	238,909	(370,150)
Change in defined benefit plan liability	7,443	19,540
	246,352	(350,610)
Total income tax expense (benefit) applicable to comprehensive loss	$ 32,677	$ (60,065)

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 decreases in the valuation allowance ($0.4 million), prior year true-ups ($0.7 million) and permanent differences between book and taxable income ($0.3 million) for 2019 and the effect of increases in the valuation allowance ($1.1 million) and permanent differences between book and taxable income ($0.2 million) for 2018.

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, 2019 and 2018:

	2019	2018
Deferred tax assets		
Ordinary		
Policy claims and loss adjustment expenses	$ $1,164,222	$ -
Net operating loss carryforwards	2,405,340	3,633,456
Defined benefit plan cost adjustment	148,516	155,959
Voluntary succession retirement program	398,049	232,213
Compensated absences and retirement contracts	57,404	54,390
Tax credit carryforwards	17,160	17,160
Other	44,100	44,100
Capital		
Unrealized loss on investments	-	292,683
	4,234,791	4,429,961
Valuation allowance	(2,170,030)	(2,529,189)
	2,064,761	1,900,772
Deferred tax liabilities		
Ordinary		
Policy claims and loss adjustment expenses	-	15,858
Depreciation	6,821	104,952
Prepaid expenses	171,228	100,876
Capital		
Unrealized gains on investments	206,136	-
Total deferred tax liabilities	384,185	221,686
Net deferred tax assets	$ 1,680,576	$ 1,679,086

As of December 31, 2019, the Company had the following federal net operating loss carryforwards available for tax purposes:

Year of origin	Year of expiration	Amount
2008	2028	$ 402,000
2010	2030	3,928,000
2011	2031	2,951,000
2013	2033	900,000
2014	2034	3,273,000
		$ 11,454,000

As of December 31, 2019, 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, 2019, the Company concluded that it was more likely than not to realize certain deferred tax assets within the near term totaling approximately $2.1 million, compared to $1.9 million in the prior year. During 2019, the valuation allowance decreased $359,000 as a result of weighing all positive and negative evidence, including trends in the Company's taxable income through December 31, 2019. 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. During 2018, 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.

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.
CATIC Title Insurance Company
CATIC Insurance (VT) Ltd.

NOTE 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 $28,691,464 as of December 31, 2019, 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 2020.

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 2019 or 2018.

In 2019 and 2018, EASI paid dividends of $600,000 and $500,000, respectively, to Financial.

NOTE 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, 2019 and 2018.

	2019	2018
Net income (loss)	$ 1,823,567	$ (5,780,580)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	1,081,171	1,054,090
Amortization of bond (discount) premium	(125,183)	88,165
Deferred income taxes	(247,842)	279,326
Net unrealized gains on equity securities	(1,236,668)	-
Net realized gains on investments	(224,646)	(435,196)
(Increase) decrease in operating assets		
Accounts, notes and other receivables	(82,658)	(456,456)
Accrued investment income	32,245	70,569
Prepaid expenses	(359,060)	10,131
Federal income taxes recoverable	26,611	(21,519)
Other assets	(17,682)	(152,455)
Increase (decrease) in operating liabilities		
Policy claims and loss adjustment expenses	(113,591)	5,015,556
Accounts payable and accrued expenses	(139,527)	681,586
Deferred revenue	122,145	(37,506)
Net cash provided by operating activities	$ 538,882	$ 315,711

NOTE 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 $9,135,089 and $1,149,739, respectively, at December 31, 2019 and $10,707,762 and $1,034,034, respectively, at December 31, 2018. 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, 2019 and 2018 is $38,263,982 and $19,144,706, respectively. The escrow amounts are not considered assets or liabilities of the Company and are, therefore, excluded from the accompanying consolidated balance sheets.

NOTE 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 $1,004,679 and $661,793 in 2019 and 2018, 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, 2019, two third-party tenants are obligated to the Company under real estate subleases expiring at various dates through 2025. Total rental income under these leases was $205,657 and $179,659 for 2019 and 2018, 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
2020	$ 1,537,256	$ 154,389	$ 1,382,867
2021	839,560	65,423	774,137
2022	608,588	67,100	541,488
2023	447,945	28,249	419,696
2024	295,558	-	295,558
Thereafter	160,235	-	160,235
	$ 3,889,142	$ 315,161	$ 3,573,981

NOTE 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.

NOTE 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, 2019 and 2018 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.

NOTE 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.

NOTE 17 - SUBSEQUENT EVENTS

The Company evaluated events and transactions which occurred subsequent to December 31, 2019, but prior to June 1, 2020, the date the consolidated financial statements were available to be issued. Management has concluded that there were no other subsequent events requiring accrual or disclosure.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively impact profitability and assets during 2020. Investments have been marked down since year end 2019, and the extent of further mark down is unknown. Further, due to the more concentrated geographical impact of the virus in locations where the Company writes its business, and the uncertainty of overall macroeconomic trends in the region and nationwide, negative financial impact could occur as a result of this pandemic. However, such potential impact is unknown at this time.