CATIC Financial, Inc.

Connecticut Attorneys Title Insurance Company

CATIC Title Insurance Company

Analytical Contacts:

Fred DeLeon, Director
fdeleon@kbra.com, (646) 731-2352

Patrick Curboy, Senior Analyst
pcurboy@kbra.com, (646) 731-2320

Andrew Edelsberg, Managing Director
aedelsberg@kbra.com, (646) 731-2371

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Executive Summary

Kroll Bond Rating Agency (KBRA) has assigned insurance financial strength ratings (IFSR) to Connecticut Attorneys Title Insurance Company (CATIC) and CATIC Title Insurance Company (CATICO) as well as an issuer rating to CATIC Financial, Inc. (CATIC Financial). The ratings are based on KBRA's **Global Insurer & Insurance Holding Company Rating Methodology**, published on April 21, 2016.

Ratings				
Entity	**Type**	**Rating**	**Outlook**	**Action**
CATIC Financial, Inc.	Issuer Rating	BB+	Stable	Assigned
- Connecticut Attorneys Title Insurance Co.	IFSR	BBB+	Stable	Assigned
- CATIC Title Insurance Company	IFSR	BB+	Stable	Assigned

Rating Rationale:

Connecticut Attorneys Title Insurance Company (CATIC)

The rating for CATIC reflects its conservative operating strategy, market leadership position in key operating states, favorable operating earnings, and experienced management team. CATIC's conservative operating strategy is evidenced by its net premium to policyholders' surplus ratio, which compares favorably to the title industry and the independent title companies. Additionally, CATIC has a conservative reserve position with consistent favorable development of known claim reserves and statutory premium reserves in excess of $4 million of its latest independent actuarial estimate. KBRA believes CATIC's overall capitalization is sound.

CATIC is the market leader in Connecticut and Vermont, with a strong and growing presence in Massachusetts, and niche market expertise throughout New England. Additionally, based on policyholders' surplus, CATIC is the sixth-ranked independent title insurance company out of more than 25 active independent title insurers. The enterprise plans to reactivate CATIC Title Insurance Company (CATICO; formerly known as New Jersey Title Insurance Company) to expand into New Jersey, New York, and Pennsylvania – several of the larger title insurance markets in the country.

CATIC has reported positive net income in each of the past 5 years – $7.7 million in aggregate – and has achieved profitability in nine of the past ten years. Although underwriting performance has fluctuated, CATIC has benefited from consistent investment income. The investment portfolio is conservative, with the majority of holdings in bonds with an average credit quality of AA. The experienced management team has an extensive legal background, and is aligned with the company's business strategy of "by attorneys, for attorneys," that is, to keep the real estate attorney present in each real estate closing transaction.

Tempering these strengths are CATIC's elevated expense ratio, modest surplus growth – driven by legacy losses at CATICO – and potential execution risk with regard to its expansion strategy. CATIC's expense ratio is somewhat elevated relative to the overall title industry, as well as compared with those of the independent companies. Key contributors to the company's expense position are recent systems upgrades and expansion costs. With these initiatives complete, KBRA expects improved expense ratios in the near to medium term. While CATIC's surplus has increased in each of the past two years, it is relatively flat over the past five years. This is largely due to a downturn in 2014 related to local market conditions, legacy losses from run-off business, and a change in federal mortgage rules that resulted in lower mortgage originations. KBRA expects meaningful surplus growth at CATIC over the next few years, driven by profitability and minimal dividends to CATIC Financial, CATIC's parent holding company.

CATIC Title Insurance Company (CATICO)

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

Favorable rating attributes include the commitment from its parent, CATIC Financial, to maintain at least $1 million in statutory surplus. This was demonstrated with a $500,000 cash infusion to CATICO in June 2017. In addition, CATICO will enter into an affiliated reinsurance treaty to minimize its net exposure whereby CATICO will cede to CATIC all liability above $50,000 per policy. CATIC will directly reinsure amounts excess of $50,000 up to $3,000,000. Amounts over $3 million will track CATIC's current reinsurance. CATICO's start-up costs should be modest because operations and systems will be provided by CATIC. The reactivated entity has met the minimum capital standard established the NJ DOBI, and CATICO will begin operations by establishing attorney-agency relationships with firms that already do business with CATIC in CATIC's current markets.

Key Rating Drivers – CATIC

Credit Strengths

- Conservative premium to policyholders surplus (PHS) ratio of 2.5 to 1 versus industry of 3.3 to 1 and 4.1 to 1 for the independent title companies
- Reported positive net income in each of the past 5 years ($7.7 million in aggregate) and net profitability in nine of the past ten years
- Market leader in its key states of Connecticut and Vermont, with a strong presence in Massachusetts
- Sixth-ranked independent title company out of more than 25 independent title insurers, in terms of policyholders' surplus
- Conservative investment portfolio with the majority of holdings in bonds. Average credit rating of the portfolio is AA
- Conservative reserve position with consistent favorable development of known claim reserves and statutory premium reserves in excess of $4 million of independent actuarial estimate
- Experienced management team with a conservative operating approach
- Business strategy of "by attorneys, for attorneys" fills a market niche and results in lower loss ratios
- Favorable net operating loss carryforwards for tax purposes, largely attributable to CATICO
- Adequate access to capital as a member of the Federal Home Loan Bank of Boston
- Low debt-to-capital ratio of under 12%.

Credit Constraints

- Modestly elevated expense position relative to peers and industry, driven by business model of "by, attorneys for attorneys," and recent systems upgrades and expansion costs
- Modest surplus growth over the past five years. This is largely due to a downturn in 2014, modest capital losses and shareholder dividends
- Legacy losses from CATICO run-off business has cost CATIC $4.6 million in surplus growth
- Expansion into new markets with limited expertise could bring operational and financial challenges
- Potential exposure to investment losses from its high-yield bank loan investments.

Key Rating Drivers - CATICO

Credit Strengths

- Reinsurance agreement with CATIC for all risks over $50,000
- Commitment from its parent, CATIC Financial, to maintain at least $1 million in statutory surplus
- Prior year-end 2016 surplus of $680,000 was supplemented by $500,000 cash infusion on June 22, 2017
- Requirement by NJ regulators of no more than 1 to 1 net written premium to surplus in 2017 and 1.5 to 1 in 2018
- Established attorney-agencies who already do business with CATIC in its current markets
- Low startup costs as operations and systems will be handled by CATIC; while Sales, Marketing and Underwriting will operate from Tarrytown, NY.
- Favorable net operating loss carryforwards for tax purposes
- Transferred all of its outstanding policy liabilities, known and unknown, to a separate account of CATIC Insurance (VT), Ltd. (CIVL), CATIC's captive insurance company
- Independent reserve reviews indicate that reserves are adequate.

Credit Constraints

- Still operating under a modified consent order and supervision by NJ DOBI
- Lack of track record to resume as a profitable title underwriter
- Legacy losses could deter new agency growth
- Expansion into new markets with limited expertise could bring operational and financial challenges
- Relatively low level of overall capitalization – only 2 other independent title insurers operate with less than $2 million of surplus.

History and Overview of Title Insurance Companies

Mortgage lenders and real estate purchasers obtain title insurance as protection against defects in the title to real property. These defects include adverse ownership claims, liens, encumbrances, or other matters affecting title. In general, policies are issued based on a title report, which is usually prepared after a search of one or more public records, maps, documents and prior title policies to ascertain the existence of easements, restrictions, rights of way, conditions, encumbrances or other matters affecting the title to, or use of, real property. In certain situations, a visual inspection of the property is conducted.

A title insurance policy typically provides coverage for the real property mortgage lender in the amount of its outstanding mortgage loan balance and for the buyer in the amount of the purchase price of the property. A policy may provide insurance for a greater amount in cases where the buyer anticipates constructing improvements on the property. The potential for claims under a title insurance policy issued to a mortgage lender (also known as a loan policy) generally ceases upon repayment of the mortgage loan. The potential for claims under a policy issued to a buyer (also known as an owner's policy) generally ceases upon the sale or transfer of the insured property.

Prior to policy issuance, title insurers typically seek to limit their risk of loss by accurately performing title searches and examinations. In contrast to property/casualty insurers' expenses, which are driven by claim losses, a title company's expenses mainly relate to the aforementioned searches and examinations, the curing of title defects, the compilation and preparation of reports, as well as related sales and administrative expenses. Another way to think about it is that title insurance emphasizes risk prevention rather than risk assumption. Since most of the work involved is labor intensive, a title insurer's expense ratio hovers around 90 percent, while the average expense ratio for a property/casualty insurer is roughly 30 percent.

Premium volume and profitability for the title insurance industry is largely dependent upon real estate sales and mortgage-refinancing activity. The services provided by title companies necessitate considerable infrastructures of personnel and the maintenance of title plants, which, although expensive, are becoming more cost effective as the business becomes automated. A significant portion of a title insurer's cost structure is fixed, and the variable component largely is employee related. Hence, it is as difficult for a company to reduce its costs of doing business in the face of a real estate downturn as it is difficult to reacquire trained staff when the market recovers.

The need for protection from title issues is even more acute in dealing with mortgages in the secondary market than what is normally encountered by a local lender. A title opinion from a local attorney will generally not provide the assurance for a national lender that is unfamiliar with local risks or unwilling to accept considerable risk. In view of these considerations, it is easy to see why virtually every mortgage traded in the secondary market is covered by a loan policy. With financially sound insurers standing behind the validity and enforceability of mortgage liens, marketability of insured loans is greatly improved.

Customarily, the greatest volume of real estate activity, particularly residential real estate, has occurred in the spring and summer months. However, changes in interest rates, the availability of credit, the economic confidence of potential homebuyers as well as many other economic factors, can cause fluctuations in the traditional pattern of real estate activity.

Organizational Structure / Background

Company History

The company was founded in 1965 under its original name, Connecticut Attorneys Title Guaranty Fund, Inc. In 1966, the company began writing title insurance policies. Since 1982, the company has operated as Connecticut Attorneys Title Insurance Company (CATIC). CATIC is New England's largest local and only bar-related title insurance underwriter.

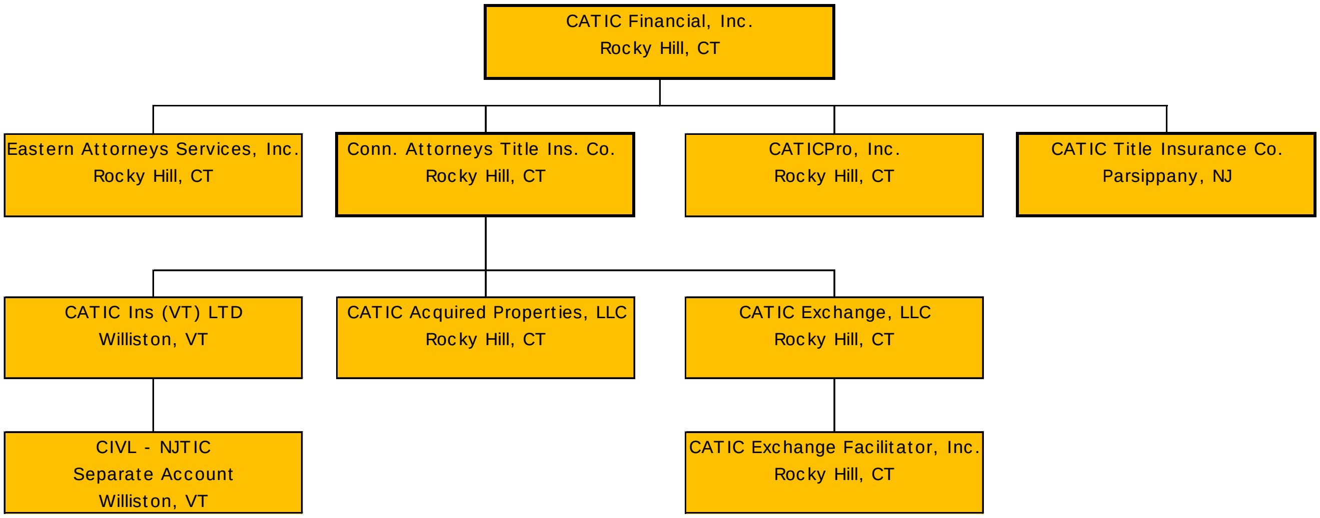
In 1996, the company formed Eastern Attorneys Services, Inc. (EASI), a service company operating in Vermont and providing Vermont Attorneys Title Corporation, an unaffiliated bar-related entity, with a means to issue title insurance policies, which, since 2000, have been CATIC's policies. In 2003, the company formed CATIC Exchange Solutions, Inc. (CESI) to facilitate tax deferred exchanges under IRC 1031. In 2003, ownership of the subsidiaries passed to CATIC's newly formed parent company, CATIC Financial, Inc. In late 2006, the parent corporation, with financial assistance from CATIC, acquired 100% of CATIC Title Insurance Company (CATICO, formerly known as New Jersey Title Insurance Company).

In 2012, the company formed CATIC Insurance (VT), Ltd. (CIVL), a wholly-owned captive insurance company established to provide CATIC with an agents' defalcation insurance policy, as such coverage was not commercially available in the licensed or excess and surplus lines markets. In 2014 (effective December 31, 2013), CIVL created a separate account, CIVL-NJTIC Separate Account, to assume the known and unknown (incurred but not reported) claims of CATICO by way of a retrocessional reinsurance agreement.

In 2014, CESI changed its name to CentricPro Management Services, Inc. (CenPro) with plans to offer additional insurance-based products to CATIC's attorney-agent firms. In December of 2016, CATIC formed CATIC Exchange, LLC to take over the tax deferred exchange business previously handled by CenPro, while at the same time, Cenpro changed its name to CATICPro, Inc.

Today, CATIC provides title insurance and ancillary services to all six New England states. CATIC is a Vermont domiciled title insurance underwriter with its main office and headquarters in Rocky Hill, CT.

Organizational Structure



Management

James M. Czapiga

Czapiga received his B.S. in finance from the University of Connecticut and graduated from Western New England College School of Law. In October 2015 he was named president and chief executive officer of CATIC. A 20-year veteran of the title industry, Czapiga has held many positions and has experience in claims administration, underwriting, sales, and operations management. A past president of the Connecticut Title Association, he is a member of the Connecticut Bar Association's real property section, the New England Land Title Association, the American Land Title Association, and the Real Estate Finance Association of Connecticut.

Richard A. Lawrence

Lawrence has more than 30 years of diverse accounting, tax, financial, and business consulting experience, and serves as senior vice president, treasurer, and CFO of CATIC. He is licensed as a CPA in Connecticut. Lawrence earned his bachelor of business administration degree from Fairfield University and his master of professional accounting degree from the University of Hartford. He has gained extensive finance and accounting experience through senior finance and management roles for a variety of insurance organizations located in Connecticut, and has helped establish insurance enterprises in Vermont, London, and Bermuda.

Christopher J. Condie, Esq.

Condie is senior vice president of operations for CATIC. He earned his bachelor of arts degree in finance from the University of Utah and his juris doctorate from the College of Law at the University of Utah. He is a member of the Utah State Bar, the Colorado Bar Association, the Connecticut Title Association, the Florida Land Title Association, the American Land Title Association, and is past president of the Land Title Association of Colorado.

Guy R. DeFrances, Jr., Esq.

DeFrances is senior vice president and general counsel to CATIC where he oversees the underwriting, compliance, regulatory, and claims departments. He is a member of the ABA's title insurance litigation committee, and formerly chaired the American Land Title Association's claims administration committee. Before joining CATIC, he was in private practice for 13 years with a concentration in commercial transactions and land use matters. DeFrances is a graduate of Connecticut College and the University of Connecticut School of Law.

Reese Lacasse

Lacasse is CATIC's senior vice president and chief information officer, having joined CATIC in June of 2014. He is responsible for all technology, systems, networks, and process automation used by CATIC. He has an IT staff of 18 reporting to him. Over his 25-year career, Lacasse has held many IT leadership positions in both small and large companies in insurance, manufacturing, software development, and university settings.

Richard A. Hogan, Esq.

Hogan is the chief compliance officer at CATIC. In this capacity, he ensures compliance with regulatory requirements for every state in which CATIC conducts business and monitors legislative enactments on both the federal and state levels. Hogan received his law degree from the University of Connecticut School of Law as well as an undergraduate degree from the University of Connecticut in Storrs. He is a member of the Connecticut Bar Association and the American Bar Association.

Stephen Maggiola, Esq.

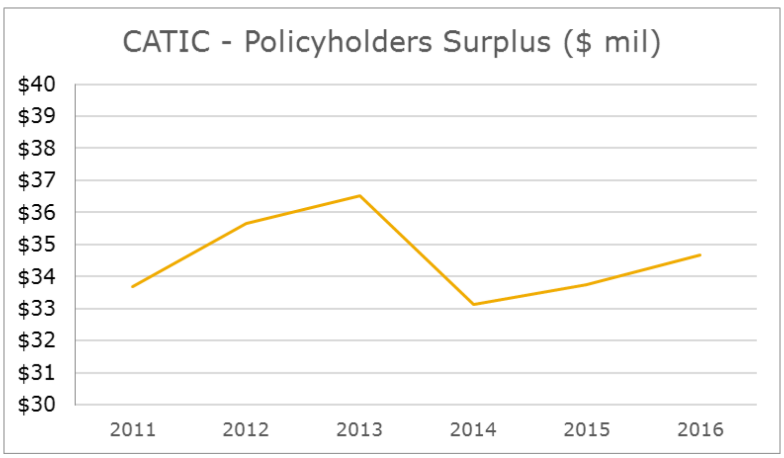
Maggiola graduated from Boston University School of Management with a bachelor of science in business administration and the University of Connecticut School of Law. In 2009, he joined CATIC, where he presently serves as counsel and Fairfield County manager. In 2017, Maggiola became a board member and executive vice president of CATICO.

Stand-Alone Information of Insurance Subsidiaries

Connecticut Attorneys Title Insurance Company

CATIC and its affiliates are engaged in the business of providing title insurance, title information and related products and services on mainly residential and also commercial property. CATIC also provides escrow services, limited search authorizations, title searches and post-closing recording verification.

CATIC - Financial Metrics					
BALANCE SHEET	**2016**	**2015**	**2014**	**2013**	**2012**
Admitted Assets	65,893	63,019	59,110	66,572	61,464
Policyholders' Surplus (PHS)	34,664	33,747	33,146	36,507	35,661
Chg in PHS	*2.7%*	*1.8%*	*-9.2%*	*2.4%*	*--*
Net Leverage	3.4	2.9	2.6	2.7	2.6
Ceded Reinsurance Leverage	1.3	1.2	2.4	1.8	0.7
Business Retention	99.5	99.4	98.7	99.0	99.6
Reserves / PHS	0.7	0.7	0.7	0.6	0.6
Class 3 - 6 Bonds % to PHS	0.0	0.0	0.0	0.0	0.0
Common Stock % to PHS	18.8	17.5	17.8	17.3	13.9
OPERATIONS	**2016**	**2015**	**2014**	**2013**	**2012**
Direct Written Prem	85,287	67,882	60,014	68,302	63,643
Net Written Prem	85,318	67,905	59,681	68,055	64,054
Chg in NWP	*25.6%*	*13.8%*	*-12.3%*	*6.2%*	*--*
NWP to PHS	2.5	2.0	1.8	1.9	1.8
LIQUIDITY	**2016**	**2015**	**2014**	**2013**	**2012**
Quick Liquidity	66.8%	65.6%	54.8%	48.6%	51.6%
Current Liquidity	169.7%	176.4%	178.7%	179.9%	197.1%
Operating Cash Flow	104.3%	105.6%	98.8%	105.0%	104.1%
PROFITABILITY	**2016**	**2015**	**2014**	**2013**	**2012**
Net Underwriting Income	1,438	899	(1,944)	1,191	350
Operating Income	2,594	2,020	(571)	2,359	1,647
Combined Ratio	97.8%	98.9%	103.4%	98.4%	99.0%
Operating Ratio	96.5%	97.4%	101.5%	96.7%	97.0%
Inv Yield	2.0%	2.0%	2.1%	2.0%	2.4%
Return on PHS	4.6%	-0.4%	-4.0%	4.4%	6.0%



CATIC prides itself on being New England's only bar-related title insurer whose mission is to keep the real estate attorney present in each real estate closing transaction. CATIC is a leading title insurance underwriter in Connecticut and Vermont, and has a growing presence in Massachusetts, Rhode Island, New Hampshire, and Maine. The company operates with a home office in Rocky Hill, CT and with eight additional field offices – Hartford and Norwalk, CT; Springfield, Waltham and Yarmouth Port, MA; East Providence, RI; Bedford, NH; and Portland, ME (opened in December 2016).

CATIC underwrites Vermont title insurance through EASI (an affiliate) from its Williston, VT office. The company also produced substantial operating revenues through title search services and through its CATIC-Trac offering, which is a post-closing service providing assistance in obtaining releases of mortgages for client attorney firms.

CATIC Title Insurance Company

In late 2006, CATIC Financial, with financial assistance from CATIC, acquired 100% of CATICO. The New Jersey-based entity was placed under administrative supervision in 2011 following large defalcation losses. CATICO has not written any new business since 2011.

On January 24, 2017, CATICO entered into a modified consent order with the NJ DOBI and currently remains under administrative supervision. In addition, the company has transferred all of its outstanding policy liabilities, known and unknown, to a separate account of CIVL and has also transferred all of its remaining pension obligations to CATIC Financial. The company's management has been in active negotiations with the NJ DOBI to begin issuing new policies and to restart the company's operations. The NJ DOBI has acknowledged that CATICO has satisfied all of the conditions in the consent order that would allow the company to restart operations.

Reinsurance: CATICO has entered into a reinsurance treaty with CATIC that will result in CATICO ceding all liability above $50,000 per policy. CATIC will directly reinsure amounts excess of $50,000 up to $3 million. Amounts over $3 million will track CATIC's current reinsurance (Underwriters at Lloyd's have already agreed to assume the CATICO business. See the Reinsurance section below for more detail.). Any amounts over $30 million will be reinsured, on a semi-automatic treaty basis, with CATIC's current excess reinsurer, Fidelis Underwriting, Ltd., based in London.

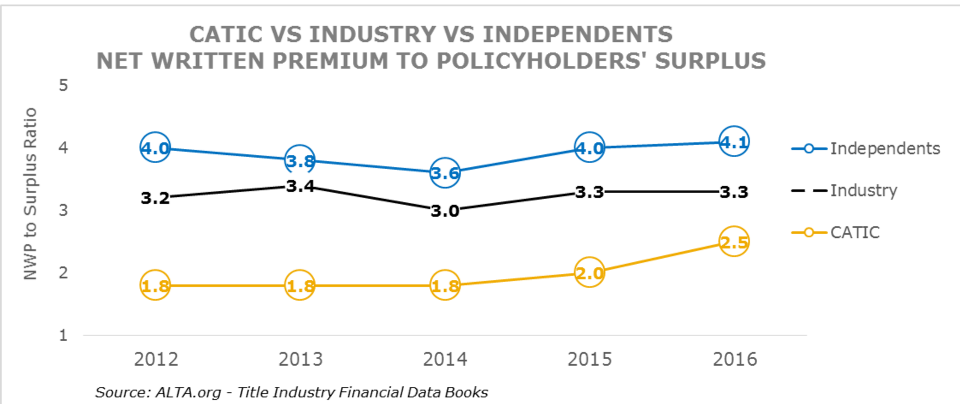
Operations: Initially, operations of CATICO will be based in Tarrytown, NY. An additional underwriter and administrative assistant will be hired by CATIC to assist in the servicing of CATICO agents. Other CATIC staff in Norwalk and Rocky Hill, CT will provide additional support services, such as policy accounting, reinsurance, agency auditing and financial reporting.

Normal claims handling: CATICO has maintained its claims staff since ceasing to write new business in 2011. That staff will remain in place and handle any claims that arise from CATICO writing new business. The CATICO staff is currently supported by CATIC's IT infrastructure and that will continue after the commencement of operations.

Defalcation Insurance: All new agent defalcation risk up to $2 million will be insured through CIVL, a captive insurer owned by CATIC, with a secondary layer of $3 million excess of $2 million insured through Liberty Mutual; and a tertiary layer of $5 million excess of $5 million provided by Lloyds. CATICO's exposure to defalcation losses will not exceed $50,000 on any single loss.

Stress Testing
KBRA employed a stress testing approach to attempt to quantify the impact of adverse economic scenarios on CATIC's projections. As the title insurance industry is largely dependent upon real estate sales and mortgage-refinancing activity, it is susceptible to market and economic downturns. KBRA believes that under the stress scenario of a market decline similar to the financial crisis in 2008 and 2009, the potential impact on CATIC's long-term financial strength is not materially affected. Further, CATIC and CATICO would be able to withstand its maximum possible loss net of reinsurance. Unlike probable maximum losses (PMLs) for property casualty insurance, it is difficult, if not impossible, to quantify the probability of this maximum possible loss. However, KBRA believes accounts with high limits exposed to the maximum possible losses are thoroughly vetted by the experienced attorney-underwriters to significantly mitigate this risk.

Balance Sheet Management
CATIC's surplus has increased in each of the past two years, but is relatively flat over the past five years. This is largely due to a downturn in 2014, related to both local market conditions and a change in federal mortgage rules, which resulted in fewer mortgage originations. Surplus growth has also been tempered by conservative reserving practices, modest shareholder dividends and unrealized capital losses, partially offset by realized capital gains. Over the past five years, CATIC paid dividends to its parent of $900,000 (2016); $0 (2015); $1.2 million (2014); $600,000 (2013) and $0 (2012).



Underwriting Leverage
Insurance companies must maintain a certain level of surplus to underwrite risks. In assessing the financial profile of an insurer, KBRA evaluates various measures of leverage. A key metric for title insurance companies is underwriting leverage relative to policyholders' surplus. The primary components of underwriting leverage are premium leverage and reserve leverage. Although this is a broad metric, it does provide a relative benchmark to assess potential stress on capital from event risk. KBRA will also evaluate reserving trends and loss reserve adequacy.

Reserve Leverage and Adequacy
An important aspect of balance sheet management for title insurance companies is reserve adequacy. Title insurers maintain both known claim reserves and statutory premium reserves (SPR). In CATIC's latest independent actuarial review by Milliman, reserve development and adequacy are both favorable.

At the end of 2016, Milliman's central estimate IBNR was $4.2 million less than the mandatory SPR recorded as a liability by CATIC. However, because of the NAIC Statutory Accounting Practices and Procedures, CATIC must book the higher mandatory amount. KBRA believes, along with CATIC management, that the lower Milliman reserve indication is favorable and provides an additional surplus cushion to CATIC. Further, known claim reserves exhibited favorable development across the majority of prior policy years.

Asset Quality and Investment Risk
Asset quality and investment management is a significant rating determinant as a security's principal and investment income should ultimately facilitate an insurer's payment of policyholder claims.

CATIC's general investment portfolio objective is to provide a stable base of earnings that is sufficiently flexible to offset the cyclical nature of CATIC's operating income. In order to accomplish this objective, the portfolio is generally divided into two major categories: fixed income and equities. CATIC also maintains a portfolio of high yield bank loans managed by Eaton Vance, and a small position in the MFS International Value Mutual Fund.

The fixed income portion accounts for over 80% of the portfolio and has an average credit rating of AA. Historically, the fixed income portfolio was classified as held-to-maturity. In order to provide increased opportunity for the investment portfolio to contribute greater returns to CATIC, a component of the portfolio is now classified as available-for-sale.

The equities portion of the portfolio is managed by Vanguard to match the performance of the S&P 500 index. Business needs or market conditions may dictate that this portion of the portfolio be liquidated and converted to fixed income investments. The maximum weight of the equity investments shall not exceed 12.0% of the total portfolio and should have a long-term strategic weight of 10.0% of the total portfolio.

CATIC Investment Portfolio YE 2016			
Asset Class	**Investment Advisor**	**$ mil**	**%**
Cash and Cash Equivalents	-	$1.2	2.3%
Fixed Income	Prime Advisors	$43.0	80.8%
High Yield Bank Loans	Eaton Vance	$2.7	5.1%
Large Cap Equity (S&P 500)	Vanguard	$5.2	9.8%
MFS International Equity Fund	Manulife Financial	$1.0	1.9%
Total		**$53.2**	**100.0%**

Fixed Income Portfolio Characteristics	
Year-end 2016	
Effective Duration	3.6 years
Avg Credit Quality	AA
Book Yield	2.64%
Weighted Avg Life	4.23 years
Unrealized Gain/Loss	$ 0.3 million

Financial Flexibility and Access to Capital

During 2008, CATIC secured membership in the Federal Home Loan Bank of Boston (FHLBB) and in February 2009, obtained a 10-year, 4.58% fixed rate, interest-only loan of $2.6 million. The funds were largely used to support a 2009 dividend to its parent company. In addition, CATIC completed a second borrowing of $1.7 million to repay an existing mortgage note on the company's primary operating facility.

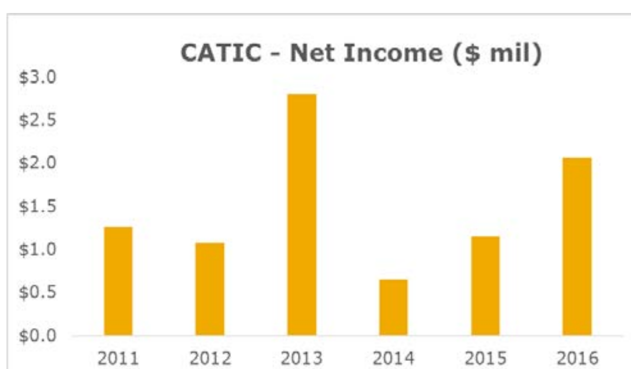
In addition, KBRA notes that CATIC Financial has had consistent earnings and dividends from its non-insurance subsidiaries for the past two years.

Liquidity and Asset/Liability Management

In order to maintain sufficient cash on hand to manage CATIC's business, the minimum cash level will be $1 million. KBRA believes that membership in the FHLBB is an additional source of liquidity.

Operating Fundamentals

CATIC has generated positive net income in each of the past five years and in nine of the past ten years. The gross incurred loss and loss adjustment expense (LAE) ratio of 2.8% was an improvement over the 4.4% gross loss ratio for the prior year. The improvement was primarily attributable to an over $1.1 million of reserves being released in 2016, primarily from policy years 2010 through 2015. CATIC estimates its first half 2017 net income to be in the range of $1.0 million to $1.2 million. KBRA believes CATIC's income projections are achievable over the near to medium-term.



Earnings Diversification

In 2016, CATIC generated 48% of its gross title insurance premiums from Connecticut. In Vermont, CATIC had 51% of the entire title insurance market. Future revenue growth sources are seen as coming from mainly Massachusetts, New Hampshire, Rhode Island, and Maine. CATIC also maintained premium diversification through purchases (82.5%) and refinances (17.5%) in 2016. CATIC's residential and non-residential split in 2016 was 90.3% and 9.7%, respectively.

Company Profile and Risk Management

A major consideration here is the experience, track record and stability of the insurance company's management team as well as the enterprise's strategic direction and business strategy.

Business Strategy

CATIC is focused on the New England market, and has increased market share from title industry dislocations and consolidations. Mortgage rates in recent years have been historically low and credit has steadily been more available over the past five years. In addition, with the rebound in the economy, the housing market in New England greatly improved in 2016 and 2015.

2016 Increase in Market Share	
Connecticut	4.2%
Massachusetts	2.0%
New Hampshire	1.6%
Maine	1.4%
Rhode Island	2.0%

Distribution

CATIC uses a distribution model that emphasizes "by attorneys, for attorneys." Through its independent attorney-agents, the company focuses on higher margin business in residential and commercial transactions. CATIC strives to control costs, improve client satisfaction, and grow revenue by stressing efficient processes and product innovation. The relationship between CATIC and each agent is governed by an agency agreement, with a strict onboarding process and thorough auditing practices. The agency agreement also prescribes the circumstances under which the agent may be liable to the company if a policy loss is attributable to error of the agent. CATIC uses only independent, attorney-agents and is the only bar-related title insurer local to and operating in New England.

Risk Management and Reinsurance

KBRA evaluates the overall effectiveness of an insurer's risk management framework to determine whether it adequately captures and addresses all plausible risks to which the institution is exposed. KBRA considers the roles and responsibilities of individuals involved in the risk management function and the scope of risks to be managed, as well as the processes, systems and procedures to manage those risks.

CATIC established a formalized enterprise risk management (ERM) program in 2011 with the audit committee responsible for the ERM process. CATIC continues to strengthen their ERM process, as there are regular meetings to identify and monitor ERM risks and determine areas of focus. Each risk identified is assigned a risk owner. All key risks identified are summarized and scored on impact, probability, velocity and vulnerability. KBRA believes CATIC's risk management controls are sufficient to cover the organization's principal risks.

Reinsurance plays an important role in CATIC's risk management. Historically, the four major national title insurers provided reinsurance for the regional and independent title insurers in order to allow them the capacity to write larger commercial deals. However, after the financial crisis, the national underwriters ceased providing reinsurance, limiting the commercial capacity of the independent companies. In 2012, CATIC organized a group of independent title insurers to establish a risk purchasing group called the American Title Reinsurance Alliance (ATRA). ATRA subsequently established a reinsurance relationship with Lloyd's of London. CATIC currently utilizes a pool of seven of the larger Lloyd's syndicates, with varying participation percentages. All reinsurers are rated A or higher by multiple rating agencies.

CATIC CEDED REINSURANCE		
Policy Year	Excess of Loss Attachment Point	Additional Liability
2010 and prior	$5 million	30% of $16.6 million xs $5 million
2011	$10 million	NA
2012 - 2014	$1 million	$10 million xs $10 million
2015	$2 million	$10 million xs $10 million
2016	$3 million	$10 million xs $20 million

CATIC also assumes reinsurance from ATRA members for limits ranging from $250,000 to $1,000,000, up to a maximum of $3 million per occurrence. KBRA believes CATIC's assumed reinsurance is within risk tolerances and overall has a prudent reinsurance structure. There is low probability of a high severity loss for policies over $20 million, and this risk is largely mitigated by extremely thorough underwriting, which is customary for all large commercial accounts. Through a semi-automatic treaty with a London-based reinsurer, CATIC has the facility to insure exposures up to $500 million.

Investment risk is also a key concern in overall risk management. As such, Cardinal Investment Advisors provides an annual portfolio review of CATIC's investment managers.

Lastly, CATIC went through the Service Organization (SOC) 2 report based on the "Trust Service Principles," which are modeled around four broad areas: Policies, Communications, Procedures, and Monitoring. Each of the principles has defined criteria (controls) that must be met to demonstrate adherence to the principles and the independent audit produced a favorable unqualified opinion.

External Considerations

In accordance with KBRA's Insurance Methodology, the analytical team reviewed the financial statements of CATIC Financial as the ultimate parent of CATIC and CATICO to determine if there is a favorable, neutral or unfavorable impact on the insurance operating companies. CATIC has generally been providing the majority of the ultimate parent's earnings each quarter. KBRA notes that CATIC Financial has earnings from other subsidiaries, which is favorable.

CATIC Financial and CATIC have both demonstrated support for CATICO through the reinsurance agreement, paid-in capital, and the board resolution to maintain at least $1 million in the company's surplus account. CATICO also provides valuable net operating loss carryforwards for tax purposes. As such, CATICO's rating is enhanced by both CATIC and CATIC Financial.

Holding Company & Debt Ratings

CATIC Financial's organizational structure contains both insurance and non-insurance subsidiaries. The non-insurance subsidiaries, including an MGA, have provided fee revenue and income, with little to no underwriting risk. The non-insurance subsidiaries have enhanced earnings for CATIC Financial. Per KBRA's Insurance Methodology, the typical notching for a holding company is based on structural subordination, regulatory restrictions, and overall financial flexibility. KBRA also notes that CATIC Financial has low financial leverage and solid fixed charge coverage. However, CATIC Financial has also relied on dividends from CATIC. As such, the analytical team believes that the typical 3 notches for CATIC Financial is warranted.

Outlook

The stable outlook reflects KBRA's expectation that CATIC and CATICO will continue to maintain sound capitalization as they look to expand their market presence. Additionally, KBRA believes CATIC's expense initiatives will improve the insurance subsidiaries' operating performance.

Drivers of a Rating Change

Rating Upgrade

A rating upgrade could materialize for CATIC with sustained growth in earnings, a continuation of favorable capital trends and conservative reserving practices. A rating upgrade for CATICO could occur if the NJ DOBI's supervision is lifted or material capital infusions take place beyond the minimum set by the NJ DOBI. However, KBRA would like to observe favorable operating performance following the resumption of business.

Rating Downgrade

Significant earnings deterioration, material investment losses, and/or departure of key members of the management team could result in a negative rating action for CATIC. In addition, a material negative change in reserves or loss of available reinsurance could lead to changes in the rating. CATICO's rating could be affected by poor operating performance, changes to the current consent order by the NJ DOBI, or a change in capital support from its parent, CATIC Financial.

Appendix A: Parent Consolidated Financials

CATIC FINANCIAL, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
As of December 31, 2016 and 2015

	2016	2015
ASSETS		
Investments		
Debt securities		
Held-to-maturity, at amortized cost	$ 12,771,810	$ 15,826,918
Available-for-sale, at fair value	32,009,245	29,526,071
Equity securities, at fair value	10,025,774	8,975,944
Total investments	54,806,829	54,328,933
Cash and cash equivalents	7,778,449	7,727,374
Accounts, notes and other receivables, net	1,157,844	762,873
Accrued investment income	390,469	382,697
Prepaid expenses	270,443	259,040
Federal income taxes recoverable	45,629	27,636
Deferred income tax assets	2,594,797	2,050,000
Premises, equipment and software, net	3,188,737	3,564,583
Title plant	340,680	306,463
Other assets	518,339	209,123
Total assets	$ 71,092,216	$ 69,618,722
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Policy claims and loss adjustment expense reserves	$ 23,251,194	$ 25,747,000
Accounts payable and accrued expenses	3,760,964	3,052,647
Deferred revenue	247,625	185,552
Notes payable	4,167,578	4,262,921
Total liabilities	31,427,361	33,248,120
STOCKHOLDERS' EQUITY		
Common stock	96,050	132,950
Additional paid-in capital	2,750,000	2,750,000
Retained earnings	37,148,129	33,828,208
Accumulated other comprehensive loss	(329,324)	(340,556)
Total stockholders' equity	39,664,855	36,370,602
Total liabilities and stockholders' equity	$ 71,092,216	$ 69,618,722

CATIC FINANCIAL, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income and Changes in Stockholders' Equity
For the years ended December 31, 2016 and 2015

	2016	2015
REVENUES		
Title insurance premiums	$ 85,383,258	$ 67,959,321
Title and other service fees	6,621,427	5,274,408
Net investment income	1,282,817	1,270,492
Net realized gains on investments	531,729	59,126
Other revenue	599,337	518,747
Total revenues	94,418,568	75,082,094
EXPENSES		
Title insurance commissions	56,541,965	44,499,664
Compensation and benefits	18,413,887	14,944,233
Provision for policy claims and loss adjustment expenses	2,244,972	2,772,274
Other general and administrative expenses	11,578,251	9,024,988
Premium taxes	1,830,747	1,471,251
Depreciation and amortization	857,509	853,154
Interest	166,634	191,136
Total expenses	91,633,965	73,756,700
Income before income tax expense	2,784,603	1,325,394
Income tax benefit	(535,318)	(276,905)
Net income	3,319,921	1,602,299
Other comprehensive income (loss)		
Unrealized gains (losses) on investments		
Gross unrealized gains (losses) on investments	528,344	(421,216)
Less: reclassification of net realized gains on investments	(531,729)	(59,126)
	(3,385)	(480,342)
Deferred income tax benefit	(1,149)	(163,315)
	(2,236)	(317,027)
Change in defined benefit plan liability		
Pension income (expense)	20,406	(204,342)
Deferred income tax expense (benefit)	6,938	(69,476)
	13,468	(134,866)
Net other comprehensive income (loss)	11,232	(451,893)
Comprehensive income	3,331,153	1,150,406
Net repurchases of common stock	(36,900)	(9,800)
Increase in stockholders' equity	3,294,253	1,140,606
Stockholders' equity, beginning of year	36,370,602	35,229,996
Stockholders' equity, end of year	$ 39,664,855	$ 36,370,602

Appendix B: CATIC 2016 Audited

CONNECTICUT ATTORNEYS TITLE INSURANCE COMPANY
Statutory Statements of Admitted Assets, Liabilities and Capital and Surplus
As of December 31, 2016 and 2015

	2016	2015
ADMITTED ASSETS		
CASH AND INVESTED ASSETS		
Bonds	$ 41,997,545	$ 40,717,284
Common stocks	6,528,815	5,907,888
Common stock of CATIC Insurance (VT), Ltd.	3,690,992	3,302,073
Real estate occupied by the Company, net of encumbrances and accumulated depreciation	3,109,591	3,206,746
Cash and short-term investments	3,586,945	4,705,212
Other invested assets	2,908,095	2,348,925
Receivable for securities	550,000	-
Total cash and invested assets	62,371,983	60,188,128
Accounts and other receivables	1,113,504	715,846
Accrued interest	328,275	318,250
Federal income tax recoverable	17,160	17,160
Receivable from affiliates	70,538	26,177
Deferred income taxes	1,493,464	1,342,115
Electronic data processing equipment and software, net	156,919	105,231
Title plant	340,680	306,463
Total admitted assets	$ 65,892,523	$ 63,019,370
LIABILITIES AND CAPITAL AND SURPLUS		
LIABILITIES		
Known claims reserve	$ 1,653,678	$ 2,371,652
Statutory premium reserve	21,911,827	20,362,113
Accounts payable and accrued expenses	3,431,756	2,235,409
Premiums received in advance	63,280	40,022
Notes payable	4,167,578	4,262,921
Total liabilities	31,228,119	29,272,117
CAPITAL AND SURPLUS		
Common stock, $100 par value, 5,000 shares authorized, issued and outstanding	500,000	500,000
Additional paid-in capital	27,686,333	27,686,333
Unassigned surplus	6,478,071	5,560,920
Total capital and surplus	34,664,404	33,747,253
Total liabilities and capital and surplus	$ 65,892,523	$ 63,019,370

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

CONNECTICUT ATTORNEYS TITLE INSURANCE COMPANY
Statutory Statements of Operations and Changes in Capital and Surplus
Years ended December 31, 2016 and 2015

	2016	2015
OPERATING REVENUE		
Title insurance premiums earned	$ 83,768,742	$ 67,202,966
Other title insurance service fees	5,334,584	4,161,709
Mortgage recording and other service fees	974,865	801,751
Total operating revenue	90,078,191	72,166,426
OPERATING EXPENSES		
Policy claims and loss adjustment expenses	2,330,997	2,950,250
Title insurance commissions	57,980,645	45,709,338
Compensation and benefits	15,375,593	11,922,169
Other general and administrative expenses	11,138,123	9,231,186
Premium taxes, licenses and fees	1,815,077	1,454,943
Total operating expenses	88,640,435	71,267,886
Net operating income	1,437,756	898,540
INVESTMENT AND OTHER INCOME		
Net investment income	1,148,692	1,115,799
Net realized investment gains, net of income tax	347,106	33,253
Other income	7,137	5,862
Net investment and other income	1,502,935	1,154,914
Income before federal income taxes	2,940,691	2,053,454
Federal income tax expense	876,005	900,464
Net income	2,064,686	1,152,990
OTHER INCREASES (DECREASES) IN CAPITAL AND SURPLUS		
Change in deferred income taxes	8,308	(439,351)
Change in non-admitted deferred tax asset	211,262	767,397
Net change in other non-admitted assets	7,415	398,075
Net change in unrealized gains and losses on investments, net of income tax	(474,520)	(1,277,560)
Dividends to stockholder	(900,000)	-
Increase in capital and surplus	917,151	601,551
Capital and surplus, beginning of year	33,747,253	33,145,702
Capital and surplus, end of year	$ 34,664,404	$ 33,747,253

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

Appendix C: CATICO (fka NJTIC) 2016 Audited

NEW JERSEY TITLE INSURANCE COMPANY
Statutory Statements of Admitted Assets, Liabilities and Capital and Surplus
As of December 31, 2016 and 2015

	2016	2015
ADMITTED ASSETS		
Cash and short-term investments	$ 207,754	$ 592,119
Bond - on deposit with NJDOBI	225,000	-
Accounts and other receivables	1,381	-
Due from affiliates	-	29,617
Federal income tax recoverable from affiliated entities	462,794	338,262
Deferred income taxes	1,829,622	2,101,619
Total admitted assets	$ 2,726,551	$ 3,061,617
LIABILITIES AND CAPITAL AND SURPLUS		
LIABILITIES		
Loss and loss adjustment expense reserves		
Known claims reserve	$ 1,391,196	$ 2,266,510
Statutory premium reserve	2,411,000	2,949,490
Reinsurance recoverable from CATIC Insurance (VT), Ltd.	(3,802,196)	(5,216,000)
Total loss and loss adjustment expense reserves	-	-
Accounts payable and accrued expenses	14,104	9,120
Payable to CATIC Insurance (VT), Ltd.	2,015,405	2,365,405
Payable to other affiliates	16,427	3,436
Total liabilities	2,045,936	2,377,961
CAPITAL AND SURPLUS		
Common stock, $100 par value, 500 shares authorized, issued and outstanding	500,000	500,000
Surplus notes	4,750,000	4,750,000
Additional paid-in capital	3,386,801	3,386,801
Segregated surplus	4,871,695	4,192,727
Unassigned surplus (deficit)	(12,827,881)	(12,145,872)
Total capital and surplus	680,615	683,656
Total liabilities and capital and surplus	$ 2,726,551	$ 3,061,617

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

NEW JERSEY TITLE INSURANCE COMPANY
Statutory Statements of Operations and Changes in Capital and Surplus
For the years ended December 31, 2016 and 2015

	2016	2015
OPERATING REVENUE		
Decrease in statutory premium reserve	$ 538,490	$ 856,577
Other title insurance service fees	4,164	10,040
Total operating revenue	542,654	866,617
OPERATING EXPENSES		
Policy claims and loss adjustment expenses	1,217,458	1,331,631
Compensation and benefits	122,593	254,798
Other general and administrative expenses	-	12,736
Premium taxes, licenses and fees	250	8,808
Total operating expenses	1,340,301	1,607,973
Net operating loss	(797,647)	(741,356)
NON-OPERATING INCOME		
Net investment income	1,568	492
Net non-operating income	1,568	492
Loss before loss on transfer of pension liability, gain on retroactive reinsurance agreement and federal income taxes	(796,079)	(740,864)
Loss on transfer of pension liability to CATIC Financial, Inc. (Note 7)	-	(219,220)
Gain on retroactive reinsurance agreement (Note 5)	678,968	475,054
Loss before federal income taxes	(117,111)	(485,030)
Federal income tax benefit	(386,067)	(339,053)
Net income (loss)	268,956	(145,977)
OTHER INCREASES (DECREASES) IN CAPITAL AND SURPLUS		
Change in deferred income taxes	(271,997)	(280,727)
Net change in non-admitted assets	-	1,075
Change in pension valuation reserve, net of tax	-	606,052
	(271,997)	326,400
(Decrease) increase in capital and surplus	(3,041)	180,423
Capital and surplus, beginning of year	683,656	503,233
Capital and surplus, end of year	$ 680,615	$ 683,656

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

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