

SOUTHERN TITLE INSURANCE CORP.
BALANCE SHEET
AS OF DECEMBER 31, 2020

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
ASSETS			
Cash and Short-Term Investments	\$ 1,552,071.95	\$ -	\$ 1,552,071.95
Bonds- Long Term	1,400,017.69	-	1,400,017.69
Other Receivables	490,397.82	(90,397.82)	400,000.00
Income Tax Refund	51,955.23	-	51,955.23
Accrued Interest Receivable	18,776.61	-	18,776.61
Prepaid Assets	1,599.44	(1,599.44)	-
Deferred Tax Assets	6,358,537.00	(6,358,537.00)	-
Deposits	51,704.87	(51,704.87)	-
	\$ 9,925,060.61	\$ (6,502,239.13)	\$ 3,422,821.48

LIABILITIES, SURPLUS, AND OTHER FUNDS

LIABILITIES

Known Claim Reserve	12,001,769.35
Statutory Premium Reserve	3,301,363.52
Accounts Payable	187,366.31
Other Liabilities	16.55
Reinsurance Fees Payable	18,714.37
Payroll Taxes Payable	(2,582.44)
Premium Taxes Payable	132,027.13
Agency Premium Paid in Advance	128,473.60
Due to Parent	79,171.28
	\$ 15,846,319.67

SURPLUS AND OTHER FUNDS

Common Capital Stock	1,001,123.20
Gross Paid in and Contributed Surplus	17,222,338.35
Unassigned Funds (Surplus)	(31,968,615.43)
Net Income	1,321,655.69
	(12,423,498.19)
TOTAL SURPLUS AND OTHER FUNDS	(12,423,498.19)
TOTAL LIABILITIES, SURPLUS AND OTHER FUNDS	\$ 3,422,821.48

SOUTHERN TITLE INSURANCE CORP.
STATEMENT OF INCOME
FOR THE PERIOD ENDING DECEMBER 31, 2020

REVENUES

Investment Income	\$ 52,993.84
Net Realized Capital Gains or (Losses)	17,603.97
Premiums Earned	553,788.37
Settlement Income	1,250,000.00
Other Income	39,186.00

TOTAL REVENUES **1,913,572.18**

EXPENSES

Loss Expense	(3,826.00)
Telephone Expense	886.44
Accounting & Auditing Expense	151,277.50
Bank Service Fees	9,682.36
Document Handling Expense	14,586.71
Dues and Subscription Expense	643.00
Legal Expense	445,937.46
Licenses & Taxes	1,190.00
Office Supplies	4,090.54
Internet/Web Service Expense	1,656.48
Postage Expense	840.00

TOTAL EXPENSES **626,964.49**

NET INCOME BEFORE FEDERAL INCOME TAXES **1,286,607.69**

Federal Income Tax (35,048.00)

NET INCOME **1,321,655.69**

CAPTIAL AND SURPLUS ACCOUNT

Capital and Surplus at January 1, 2020 (13,748,169.10)

Net Income 1,321,655.69

Change in Deferred Taxes (277,183)

Change in Not Admitted Assets 280,198

Total Capital and Surplus at December 31, 2020 **(12,423,498.19)**

SOUTHERN TITLE INSURANCE CORP.
CASH FLOW STATEMENT
FOR THE PERIOD ENDING DECEMBER 31, 2020

Cash from Operations:

Net investment income	\$ 72,738.70	
Miscellaneous income	1,289,186.00	
Benefits and loss related payments	3,826.00	
Commissions, expenses and write-ins	(497,249.99)	
Federal income taxes paid	<u>35,048.00</u>	
Net Cash from Operations		903,548.71

Cash from Investments:

Proceeds from bonds sold, matured or repaid	822,273.32	
Cost of bonds acquired	<u>-</u>	
Net Cash from Investments		822,273.32

Cash from Financing and Miscellaneous Sources:

Dividends to stockholders	-	
Other cash provided (applied)	<u>(396,984.78)</u>	
Net Cash from Financing and Miscellaneous Sources		<u>(396,984.78)</u>

Net decrease (increase) in cash and short-term investments		1,328,837.25
Cash and short term investments, beginning of period		223,234.70
Cash and short term investments, end of period		<u>\$ 1,552,071.95</u>

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Basis of Presentation

Southern Title Insurance Corporation, in Receivership (the “Company” or “Southern Title”) prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the Commonwealth of Virginia. Effective January 1, 2001, the Commonwealth of Virginia required that insurance companies domiciled in the Commonwealth of Virginia prepare their statutory basis financial statements in conformity with accounting practices and procedures prescribed or permitted by the National Association of Insurance Commissioners (“NAIC”) subject to any deviations prescribed or permitted by the Commissioner of Insurance for the Commonwealth of Virginia.

A reconciliation of the Company’s net income and surplus between NAIC standard accounting practices and procedures (“SAP”) and practices prescribed or permitted by the Commonwealth of Virginia is shown below:

	State of Domicile	12/31/2020	12/31/2019
NET INCOME:			
1. Southern Title State Basis (Page 4, Line 15, Columns 1 & 3)	Virginia	\$ 1,321,656	\$48,107
2. State Prescribed Practices that Increase/Decrease NAIC SAP: <i>e.g.</i> , Depreciation of Fixed Assets		0	0
3. State Prescribed Practices that Increase/Decrease NAIC SAP: <i>e.g.</i> , Depreciation, Home Office Property		0	0
4. NAIC SAP (1-2-3=4)		\$1,321,656	\$48,107
SURPLUS:			
5. Southern Title State Basis (Page 3, Line 32, Columns 1 & 2)		(12,423,498)	(13,748,169)
6. State Prescribed Practices that Increase/Decrease NAIC SAP: <i>e.g.</i> , Goodwill, Net <i>e.g.</i> , Fixed Assets, Net		0	0
7. State Prescribed Practices that Increase/Decrease NAIC SAP: <i>e.g.</i> , Home Office Property		0	0
8. NAIC SAP (5-6-7=8)		(\$12,423,498)	(\$13,748,169)

B. Receivership

On December 20, 2011, in a case styled Commonwealth of Virginia ex rel. State Corporation Commission v. Southern Title Insurance Corporation and Manju S. Ganeriwala, Treasurer of Virginia, the Circuit Court of the City of Richmond, Virginia (the “Court”) found that Southern Title was in a condition where any further transaction of business would be hazardous to the policyholders, creditors, subscribers, and the public. Therefore, pursuant to Title 38.2, Chapters 10 and 15 of the Virginia Code, the Court issued its Final Order Appointing Receiver for Rehabilitation or Liquidation (the “Receivership Order”) appointing the State Corporation Commission of the Commonwealth of Virginia (the “Commission”) as Receiver of Southern Title, and the then Commissioner of Insurance was appointed as Deputy Receiver. On January 5, 2018, pursuant to Title 38.2, Chapters 10 and 15 of the Virginia Code, the Commission entered an updated order and appointed Scott A. White, the Commissioner of Insurance for the Bureau of Insurance for the Commonwealth of Virginia (the “Bureau”), as Deputy Receiver. On April 13, 2018, the Fifth Directive of the Deputy Receiver Appointing Special Deputy Receiver was issued, which appointed Donald C. Beatty, Deputy Commissioner for the Commission, as Special Deputy Receiver.

As of September 15, 2011, the Company voluntarily ceased soliciting any new contracts or policies of insurance or reinsurance. On that same date, all agents of the Company received notice of termination. The Commission subsequently issued an order of suspension on September 19, 2011, and an impairment order on November 4, 2011, because the Company no longer met minimum capital and reserve requirements.

Prior to receivership, the Company was licensed to conduct business in the following states: Alabama, Arkansas, Colorado, Delaware, District of Columbia, Florida, Georgia, Louisiana, Maryland, Mississippi, Nevada, New Jersey, New Mexico, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, and West Virginia. The

Southern Title Insurance Corp.
Notes to the Financial Statements for Period Ended December 31, 2020

Company withdrew from New Mexico in 2009, Texas in 2010, and Ohio in 2011. The Company's license became inactive in Alabama and Georgia prior to receivership and inactive in Delaware, the District of Columbia, Louisiana, and Tennessee post-receivership. The Company's license has been revoked, suspended, or is under review for such action in its domiciliary state of Virginia and in Arkansas, Colorado, Florida, Maryland, Mississippi, Nevada, South Carolina, and West Virginia.

The Receivership Order directed the Receiver, Deputy Receiver, and the Special Deputy Receiver to take control and possession of the Companies' property and affairs. The Deputy Receiver takes the place of the Board of Directors for the purpose of answering the various "General Interrogatories." Also, the "General Interrogatories" have been answered to the best of the Deputy Receiver's and his authorized representatives' knowledge and may be subject to change. Information for periods prior to December 20, 2011, is presented as previously reported to the Bureau by the Company or as presented in the books and records of the Company.

On December 21, 2011, the Deputy Receiver adopted a receivership appeal procedure for appeals or challenges of any decision made by the Deputy Receiver with respect to all claims against the Company in the Second Directive Adopting Receivership Appeal Procedure.

On August 23, 2012, the Deputy Receiver issued the Third Directive of Deputy Receiver Imposing Suspension and Moratorium ("Third Directive") effective July 26, 2012, implementing an official moratorium on all claim-related payments and costs. The moratorium was entered after the draft actuarial analysis provided for higher case reserve levels. Based on the Third Directive, all direct claim payments and defense cost payments have ceased. Administrative expenses are still being paid to administer the wind down of the Company's affairs.

On July 28, 2014, the Commission issued its Order of Liquidation with Finding of Insolvency (the "liquidation order") in which it found that further efforts to rehabilitate Southern Title would be futile, and the Company should be liquidated. The liquidation order established January 28, 2015, as the claims filing deadline, the date by which all applicable claims against Southern Title must be received by the Company. Claims subject to the claims filing deadline that were not filed on or before January 28, 2015, are considered late-filed claims and will be subordinated in payment to the timely-filed claims of other creditors. Late-filed claims will not be adjudicated on the merits unless or until funds are available for distribution to claims of this priority. Claims for payment of services rendered, or goods supplied, to Southern Title at the request of the Deputy Receiver after December 20, 2011 ("Administrative Claims"), are not subject to the claims filing deadline. The liquidation order further requires that all timely-filed claims must be rendered certain, liquidated, and non-contingent within a reasonable time following the initial presentment of the claim, and at the latest, on or before January 28, 2016. With the passage of the January 28, 2016, deadline date, unliquidated claims were denied or given a priority below that of timely-filed policyholder claims as appropriate.

C. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements, accompanying schedules and footnotes, and general interrogatories. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

D. Accounting Policies

The Company generally recognizes premiums when collected on policies it writes directly and when reported to the Company on policies issued by its agents. A statutory premium reserve is established for the protection of holders of title insurance policies. The statutory premium reserve is adjusted each year based on the number of policies

Southern Title Insurance Corp.
Notes to the Financial Statements for Period Ended December 31, 2020

issued and the net retained liability under those policies and amortized annually in accordance with a formula prescribed by the Bureau.

In addition, the Company uses the following accounting policies:

- (1) Short-term investments are stated at cost or amortized cost.
- (2) Bonds are stated at amortized cost using the interest method.
- (3) Basis at which loan-backed securities are stated and the adjustment methodology used for each type of security – not applicable.
- (4) The Company owns 100% of the common stock of Southern Title Services, Inc. The stock is valued using the equity method, which was \$0 as of December 31, 2020, and December 31, 2019.
- (5) Unpaid losses and loss adjustment expenses represent estimates of the cost of defending and settling claims which have been reported to the Company. The estimates are based on all information known to the Company and include consideration of all known legal issues. The Receiver believes the amounts are reasonable and adequate in the circumstances; however, due to the nature of the Company's business and the length of time to resolve claims, as claims are settled, the ultimate losses may vary significantly from the estimated amounts included herein. Loss estimates are continually reviewed and modified, and any adjustments are reflected in operations in the period in which they are determined.

E. Going Concern

Based on management's review of the Company's financials, noting a negative surplus and the receivership status of the Company, we conclude there is substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time beyond the date of the financial statement.

2. **ACCOUNTING CHANGES AND CORRECTIONS OF ERRORS – NOT APPLICABLE**

3. **BUSINESS COMBINATIONS AND GOODWILL – NOT APPLICABLE**

4. **DISCONTINUED OPERATIONS – NOT APPLICABLE**

5. **INVESTMENTS**

A. Loan-backed Securities

- (1) Prepayment assumptions for single class and multi-class mortgage-backed securities were obtained from broker dealer survey values or internal estimates.
- (2) Not Applicable.
- (3) Not Applicable.
- (4) Not Applicable.
- (5) Not Applicable.

B. Restricted Assets

	1	2	3	4	5	6
Restricted Asset Category	Total Gross Restricted from Current Year	Total Gross Restricted from Prior Year	Increase / (Decrease) (1 minus 2)	Total Current Year Admitted Restricted	Percentage Gross Restricted to Total Assets	Percentage Admitted Restricted to Total Admitted Assets
a. Subject to contractual obligation for which liability is not shown	\$0	\$0	\$0	\$0	0%	0%
b. Collateral held under security lending agreements	\$0	\$0	\$0	\$0	0%	0%
c. Subject to	\$0	\$0	\$0	\$0	0%	0%

Southern Title Insurance Corp.
Notes to the Financial Statements for Period Ended December 31, 2020

Restricted Asset Category	1	2	3	4	5	6
	Total Gross Restricted from Current Year	Total Gross Restricted from Prior Year	Increase / (Decrease) (1 minus 2)	Total Current Year Admitted Restricted	Percentage Gross Restricted to Total Assets	Percentage Admitted Restricted to Total Admitted Assets
repurchase agreements						
d. Subject to reverse repurchase agreements	\$0	\$0	\$0	\$0	0%	0%
e. Subject to dollar repurchase agreements	\$0	\$0	\$0	\$0	0%	0%
f. Subject to dollar reverse repurchase agreements	\$0	\$0	\$0	\$0	0%	0%
g. Placed under option contracts	\$0	\$0	\$0	\$0	0%	0%
h. Letter stock or securities restricted as to sale	\$0	\$0	\$0	\$0	0%	0%
i. FHLB capital stock	\$0	\$0	\$0	\$0	0%	0%
j. On deposit with states	\$286,682	\$287,572	(\$890)	\$286,682	8.38%	8.38%
k. On deposit with other regulatory bodies	\$0	\$0	\$0	\$0	0%	0%
l. Pledged collateral FHLB (including assets backing funding agreements)	\$0	\$0	\$0	\$0	0%	0%
m. Pledged as collateral not captured in other categories	\$0	\$0	\$0	\$0	0%	0%
n. Other restricted assets	\$0	\$0	\$0	\$0	0%	0%
o. Total Restricted Assets	\$0	\$0	\$0	\$0	0%	0%

6. **JOINT VENTURES, PARTNERSHIPS, AND LIMITED LIABILITY COMPANIES – NOT APPLICABLE**

7. **INVESTMENT INCOME**

- A. All investment income due and accrued with amounts that are over ninety (90) days past due are non-admitted and excluded from surplus.
- B. The total amount excluded at December 31, 2020, and December 31, 2019, was \$0.

8. **DERIVATIVE INSTRUMENTS – NOT APPLICABLE**

9. **INCOME TAXES**

- A. Deferred Tax Assets/(Liabilities)

- (1) Components of Net Deferred Tax Asset/(Liability)

Southern Title Insurance Corp.
Notes to the Financial Statements for Period Ended December 31, 2020

	2020			2019			Change		
	Ordinary	Capital	(Col 1+2) Total	Ordinary	Capital	(Col 4+5) Total	(Col 1-4) Ordinary	(Col 2-5) Capital	(Col 7+8) Total
(a) Gross deferred taxes	6,358,537	\$ -	6,358,537	\$6,635,720	\$ -	\$6,635,720	(\$277,183)	\$ -	(\$277,183)
(b) Statutory valuation allowance adjustment	-	-	-	-	-	-	-	-	-
(c) Adjusted deferred tax assets (1a-1b)	6,358,537	-	6,358,537	6,635,720	-	6,635,720	(277,183)	-	(277,183)
(d) Deferred tax assets non-admitted	6,358,537	-	6,358,537	6,635,720	-	6,635,720	(277,183)	-	(277,183)
(e) Subtotal net admitted deferred tax asset (1c-1d)	-	-	-	-	-	-	-	-	-
(f) Deferred tax liabilities	-	-	-	-	-	-	-	-	-
(g) Net admitted deferred tax assets/(net deferred tax liability) (1e-1f)	-	-	-	-	-	-	-	-	-

(2) Admission Calculation Components

	2020			2019			Change		
	Ordinary	Capital	(Col 1+2) Total	Ordinary	Capital	(Col 4+5) Total	(Col 1-4) Ordinary	(Col 2-5) Capital	(Col 7+8) Total
(a) Federal income taxes paid in prior years recoverable through loss carrybacks	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(b) Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after the application of the threshold limitation. (The lesser of 2(b)(1) and 2(b)(2) below):	-	-	-	-	-	-	-	-	-
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	-	-	-	-	-	-	-	-	-
2. Adjusted gross deferred tax assets allowed per limitation threshold	-	-	-	-	-	-	-	-	-
(c) Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities	-	-	-	-	-	-	-	-	-
(d) Deferred tax assets admitted as the result of application of SSAP 101.	-	-	-	-	-	-	-	-	-
Total 2(a)+2(b)+2(c)	-	-	-	-	-	-	-	-	-

(3) Other Admissibility Criteria

	2020	2019
a. Ratio percentage used to determine recovery period and threshold limitation amount	(51%)	(48%)
b. Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2(b)(2) above	(\$12,423,498)	(\$13,748,169)

B. Deferred Tax Liabilities Not Recognized

There are no temporary differences for which deferred tax liabilities are not recognized.

C. Current and Deferred Income Taxes

(1) Current Income Tax

	<u>12/31/2020</u>	<u>12/31/2019</u>
1. Current year federal tax expense/(benefit)	\$0	\$0
2. Prior year adjustments	0	0
3. Other	0	0
4. Federal income taxes incurred, gross of	0	0

Southern Title Insurance Corp.
Notes to the Financial Statements for Period Ended December 31, 2020

capital gains tax expense (benefit)	0	0
5. Less: realized capital gains tax (benefit)	0	0
6. Federal income taxes incurred, net of capital gains tax expense (benefit)	0	0

(2) Deferred Tax Asset

	<u>12/31/2020</u>	<u>12/31/2019</u>	<u>Change</u>
Deferred tax assets:			
1. Loss reserve discounting	\$36,513	\$75,611	\$(39,098)
2. Unearned premium reserve	21,910	25,097	(3,187)
3. Investments	0	0	0
4. Deferred compensation	0	0	0
5. Other	6,300,114	6,535,012	(234,898)
6. Unrealized (gains) losses	0	0	0
7. Allowance for title plant impairment	0	0	0
8. Total deferred tax assets	6,358,537	6,635,720	(277,183)
9. Non-admitted deferred tax assets	6,358,537	6,635,720	(277,183)
10. Admitted deferred tax asset	0	0	0

(3) Deferred Tax Liability

Deferred tax liabilities:			
1. Investments	0	0	0
2. EDP equipment	0	0	0
3. Pension accrual	0	0	0
4. Unrealized (gains) losses	0	0	0
5. Allowance for title plant impairment	0	0	0
6. Total deferred tax liabilities	0	0	0
7. Net admitted deferred tax asset (liability)	0	0	0
8. Net deferred tax assets	0	0	0

(4) Net Deferred Tax Assets

In accordance with SSAP 101, management considered whether any valuation allowance on the deferred tax asset was necessary as of December 31, 2019. Based on total consolidated net income levels in the prior years, it was determined that no valuation allowance is considered necessary for the deferred tax asset.

D. The Company's income tax incurred and change in deferred income tax differs from the amount obtained by applying the federal statutory rate of 21% to income before income taxes as follows:

	<u>12/31/2020</u>	<u>12/31/2019</u>
1. Federal income taxes incurred, gross of capital gains tax (benefit)	\$ 0	\$ 0
Change in deferred income tax (without tax on unrealized gains and losses)	0	0
2. Total federal income tax reported	0	0
3. Statutory income (loss) before taxes, gross of capital gains tax (benefit)	1,321,656	48,107
Expected income tax expense (benefit) at 21% statutory rate	277,548	10,103
Increase (decrease) in actual tax reported resulting from:		
a. Goodwill amortization	0	0
b. Nondeductible expenses for meals, penalties, and lobbying	0	0
c. Deferred tax benefit/(exp) on non-admitted assets	0	(125)
d. Discounting on unpaid losses	0	(131)
e. Unearned premiums	(3,187)	(3,603)
f. Travel & entertainment	0	0
g. Other	(274,361)	(6,244)
h. Current year NOL carry-forward	(0)	0
i. Total income tax reported	0	0

Southern Title Insurance Corp.
Notes to the Financial Statements for Period Ended December 31, 2020

E. Operating loss carry-forward:

- (1) As of December 31, 2019, the Company reported the following net operating loss carry-forward:

Tax Year	Loss Sustained	Loss Previously Applied	Loss Remaining
12/31/09	\$2,875,066	\$2,875,066	\$0
12/31/10	6,486,495	648,518	5,837,977
12/31/11	12,655,001		12,655,001
12/31/12	5,387,082		5,387,082
12/31/13	701,761		701,761
12/31/14	2,541,622		2,541,622
12/31/15	1,409,575		1,409,575
12/31/17	1,034,401		1,034,401
12/31/18	510,355		510,355
TOTALS			\$30,077,774

There are no tax credit carry-forwards available for tax purposes.

- (2) The amounts of federal income taxes incurred that are available for recoupment in the event of future net losses are \$0 for 2019 and 2018.

F. Consolidated federal income tax return:

The Company was named in the federal consolidated tax return of ALPS Corporation (“ALPS”) and its subsidiaries for the period ending December 31, 2013. ALPS is the parent entity of the consolidated return. In addition to ALPS and the Company, the following subsidiaries were identified in the consolidated federal income tax return:

Attorneys Liability Protection Society, Inc.
Peak Investment Management Ltd.
First Lawyers Trust
ALPS Risk and Insurance Services, Inc.
Foundation Services Corporation
Investors Southern Corporation
Southern Title Agency Corporation
Southern Title Services, Inc.
Southern Title Abstractors Corporation
Glasgow Enterprises Corporation

On December 27, 2012, ALPS, as the parent corporation of this consolidated group, issued a letter purporting to terminate the tax allocation agreement between the various entities effective January 1, 2012. Accordingly, there is currently no agreement for the allocation of income, losses, and tax liabilities for the 2012 and subsequent tax years. Consolidated returns have been filed by ALPS; however, these returns have not included Southern Title’s tax information and no compensation or adjustment was provided to Southern Title for its loss carry-forwards, including the one for 2012 that was applied by ALPS to offset its income that year. Although ALPS asserted in its December 27, 2012, letter that it was considering retroactively terminating the tax allocation agreement and filing an application to deconsolidate the group for tax years ended 2011, 2010, and 2009. No such attempt to deconsolidate retroactively has occurred. Southern Title has filed unconsolidated returns for the years 2012 through 2019 to report properly its activities and will continue to do so going forward.

G. Federal or Foreign Federal Income Tax Loss Contingencies

The Company does not have any tax loss contingencies for which it is reasonably possible that the total liability will significantly increase within twelve months of the reporting date.

10. INFORMATION CONCERNING PARENT, SUBSIDIARIES, AND AFFILIATES

- A. All outstanding shares of the Company were owned by Investors Southern Corporation (“ISC”), a holding company for the insurance operations domiciled in the Commonwealth of Virginia. All outstanding shares of ISC were owned by ALPS, a holding company domiciled in the state of Montana. ISC subsidiaries Southern Title Agency Corporation and Glasgow Enterprises Corporation were terminated on January 23, 2013. ISC’s corporate existence was terminated on February 28, 2013, and Glasgow Enterprises Corporation II was previously terminated in 2001. ALPS turned over all assets of the non-Southern Title ISC subsidiaries to the Company. Southern Title’s shares became the property of ALPS on ISC’s dissolution. The Company has a wholly-owned subsidiary, Southern Title Services, Inc., which is described in Note 1.D.7. above, and carried in the statutory financial statements at \$0.
- B. The admitted balances due to or from affiliates as of December 31, 2020, and December 31, 2019, amounted to \$0 and \$0 due from affiliates, respectively. The non-admitted balances due from affiliates for these same dates are \$0 and \$0, respectively.
- C. There were no changes in the method of establishing the terms from that used in the preceding period.

11. DEBT – NOT APPLICABLE

12. RETIREMENT PLANS, DEFERRED COMPENSATION, POST EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES, AND OTHER POST RETIREMENT BENEFIT PLANS – NOT APPLICABLE

13. CAPITAL AND SURPLUS, DIVIDEND RESTRICTIONS, AND QUASI-REORGANIZATIONS

The Company has 250,000 shares authorized and 210,320 shares issued and outstanding of its common stock. The Company has no preferred stock.

The Company is subject to certain minimum levels of capital and surplus as required by statutes of the states in which it is authorized to do business. As of November 4, 2011, the Company no longer exceeded all minimum capital requirements.

The maximum amount of dividends which can be paid by insurers domiciled in the Commonwealth of Virginia to shareholders without prior approval of the Commissioner of Insurance is subject to restrictions relating to statutory surplus. Statutory surplus at December 31, 2020 and December 31, 2019, amounted to (\$12,423,498) and (\$13,748,169), respectively. No dividends were paid in 2020 or 2019.

14. CONTINGENCIES

As discussed in Note 1, the Company was placed in receivership by the Circuit Court of the City of Richmond on December 20, 2011.

The paragraphs that follow provide a summary description of litigation contingencies, litigation, or claims filed by or against the Company.

A. American National Title (“ANT”) Litigation

A total of seventeen claims with documented losses which involve at least an indication of fraud on the part of ANT and ANT-related parties were filed in the receivership. The Company paid \$1,464,212.96 on these ANT and ANT-related claims prior to the receivership and has approved post-receivership claims of \$6,963,093.34.

Prior to the receivership, there was one pending lawsuit involving ANT and Southern Title. JLE Investors, Inc. filed a lawsuit against Southern Title and ANT alleging fraud

Southern Title Insurance Corp.
Notes to the Financial Statements for Period Ended December 31, 2020

and bad faith insurance practices. Various claims in this lawsuit were subsequently settled and the case was severed into three separate lawsuits to facilitate dismissals of the settled portions of the claims. All claims seeking a recovery from Southern Title have been resolved. Southern Title remained in two of these lawsuits to prosecute third-party claims against an ANT-related actor until year-end 2019.

On September 8, 2015, an involuntary petition under Chapter 7 of the Bankruptcy Code was filed for Syed Rizwan Mohiuddin, the principal of ANT, in the United States Bankruptcy Court, Southern District of Texas, Houston Division, Case No. 15-34752. On October 7, 2015, an order for relief was entered in the bankruptcy proceeding. An adversary proceeding was initiated by Southern Title in this bankruptcy proceeding on July 1, 2016, and a judgment was returned in Southern Title's favor on May 12, 2017.

On December 17, 2018, the court noticed it had obtained certain assets for distribution to creditors. The court set March 22, 2019, as the deadline for creditors to file proofs of claim. Southern Title's proof of claim was filed on March 8, 2019, for the amount awarded in the adversary proceeding.

On April 10, 2019, after the deadline to file a proof of claim had passed, the trustee commenced an extensive adversary proceeding to bring various property into the bankruptcy estate. On August 19, 2019, the bankruptcy trustee settled with Mr. Mohiuddin at mediation, and the settlement was approved by the bankruptcy court on October 7, 2019. Because Mr. Mohiuddin had performed fully under his settlement agreement with the trustee, the trustee's adversary proceeding was dismissed on January 15, 2020. Southern Title should receive a percentage of the payout after the trustee recoups costs and fees of administration. Southern Title's judgment against Mr. Mohiuddin is impacted by the settlement only to the extent of any recovery it receives.

On July 8, 2020, Fidelity National Title Insurance Co., another creditor of Mr. Mohiuddin, filed an application requesting reimbursement for its payments to various professionals and vendors it had hired to investigate the debtor's accounts and assets. On July 27, 2020, Southern Title filed an objection thereto, arguing the bankruptcy estate is not liable for the payment of those expenses. Fidelity National Title Insurance Co. and Southern Title subsequently mediated and settled Southern Title's objection. Fidelity National Title Insurance Co.'s expense reimbursement claim was essentially reduced by half. The related issue of the Deputy Receiver's objection to the payment of retroactive legal fees to the law firm that represented both Fidelity and the Trustee remains pending.

In addition, the Deputy Receiver for Southern Title filed a lawsuit against an individual that had been a partner of Syed Rizwan Mohiuddin in various corporations. The individual defendant personally guaranteed performance under a promissory note arising from one of the fraudulent closings performed by ANT. Southern Title obtained a judgment in an amount sufficient to recover the balance due under the promissory note on October 2, 2017. The defendant appealed the judgment. The appeal was later dismissed, however, after the parties agreed to compromise the now final judgment in March 2020. Performance of the underlying compromise payout agreement is due by May 2021.

On July 11, 2018, the United States of America filed a five-count indictment against Syed Rizwan Mohiuddin, and asserted various asset forfeiture claims. Trial is currently scheduled to take place June 1, 2021. Most of the court's docket activity concerns sealed events. One count of the indictment is related to the fraud perpetrated on Southern Title. On September 28, 2018, Southern Title delivered a victim impact statement to the United States Attorney's Office, and asserted a claim for restitution.

B. Recoupment Actions

As of December 31, 2020, there were sixteen open recoupment claims of the Company. Of these, three involved ongoing litigation or judicial proceedings.

C. Proof of Claim Process and Appeals

Southern Title Insurance Corp.
Notes to the Financial Statements for Period Ended December 31, 2020

As described in Note 1, on December 20, 2011, the Deputy Receiver established a receivership appeal procedure for the review of all decisions and claim determinations made by the Company or the Deputy Receiver. On or about January 26, 2012, the Deputy Receiver made proof of claim forms and instructions available for use by all parties that wanted to assert claims against the Company. The liquidation order set January 28, 2015, as the claim filing deadline, by which all applicable claims against Southern Title had to be received by the Company. Claims subject to the claims filing deadline that were not filed on or before January 28, 2015, are considered late-filed claims and subordinated in payment to the timely-filed claims of other creditors. Late-filed claims will not be adjudicated on the merits unless or until funds are available for distribution to claims of this priority. Claims for payment of services rendered, or goods supplied, to Southern Title at the request of the Deputy Receiver after December 20, 2011, are not subject to the claims filing deadline. The liquidation order further required that all timely-filed claims were to be rendered certain, liquidated, and non-contingent within a reasonable time following the initial presentment of the claim, or by January 28, 2016.

From the inception of the receivership through December 31, 2020, thirty-four of the claim determinations and six of the claim priority determinations were appealed. As of December 31, 2020, determinations of appeal had been issued in all but two of those appeals. One appeal was deemed automatically denied and the other was withdrawn prior to the issuance of a determination of appeal. A determination of appeal that was further appealed to the Commission was finally dismissed on December 2, 2020. No appeals were pending before the Commission on December 31, 2020.

D. Litigation Against the Company

There is one case pending against the Company. On January 2, 2012, the Deputy Receiver sent a notice of receivership to all local counsel and requested that those counsel file a notice of receivership and seek stays of pending litigation. As of December 31, 2014, all actions against the Company have been stayed, dismissed, or otherwise inactive. Any potential loss attributable to these actions is reflected in related claims reserves.

E. Asset Recovery Litigation

Cunningham, et al. v. Uddin

This appeal concerned a judgment Southern Title received on a claim for breach of a guaranty agreement on a purchase money note for a property covered under a Southern Title policy. An agreement to compromise the judgment was executed on March 11, 2020. Southern Title will be paid approximately two-thirds of the total amount of the judgment. On March 19, 2020, the first payment was transferred to Southern Title, and on March 27, 2020, the appeal before the Supreme Court of Texas was dismissed. A release of the judgment is to be provided once all settlement payments have been made. Should a default in settlement payments occur and remain uncured, the now final judgment will be collectable in full with due credit for any payments already made.

White, et al. v. Uddin, et al.

As part of the collection effort, it was learned that the defendant/judgment debtor conveyed certain property interests to a limited liability entity owned by a trust. As these interests are not exempt from collection, the Deputy Receiver filed a lawsuit on April 12, 2018, seeking to undo these conveyances and an injunction to prevent further transfer of the property interests. The case is now abated pending performance of the compromise of judgment agreement resolving a related lawsuit (see Note 14.E. Cunningham, et al. v. Uddin for a narrative addressing the compromise of judgment).

Southern Title v. Clear Title Insurance, Inc., et al.

In 2005, Southern Title and Clear Title Insurance, Inc. ("Clear Title"), entered into an Issuing Agency Contract, which made Clear Title a policy-issuing agent for Southern Title in Florida. Clear Title's principals executed personal guarantees. Clear Title issued

Southern Title Insurance Corp.
Notes to the Financial Statements for Period Ended December 31, 2020

a policy of title insurance and failed to account for a prior lien, and on April 2, 2012, Southern Title asserted various claims against Clear Title and others to recover damages related to the transaction.

On February 1, 2017, a default judgment was entered against Clear Title Insurance, Inc., summary judgment was entered against one guarantor, and partial summary judgment was entered against the other. On August 20, 2020, a suggestion of death was filed for one of Clear Title's principals.

On October 14, 2020, Southern Title filed a motion to substitute the deceased principal's estate as a defendant in his stead.

15. **LEASES – NOT APPLICABLE**
16. **INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK – NOT APPLICABLE**
17. **SALE, TRANSFER AND SERVICING OF FINANCIAL ASSETS, AND EXTINGUISHMENTS OF LIABILITIES – NOT APPLICABLE**
18. **GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS – NOT APPLICABLE**
19. **DIRECT PREMIUMS WRITTEN/PRODUCED BY MANAGING GENERAL AGENTS/THIRD-PARTY ADMINISTRATORS – NOT APPLICABLE**
20. **FAIR VALUE MEASUREMENTS**

A. Inputs used for Assets and Liabilities Measured and Reported at Fair Value

- (1) The Company has categorized its assets and liabilities that are reported on the balance sheet at fair value into the three-level fair value hierarchy as reflected in the table below. The three-level hierarchy is based on the degree of subjectivity inherent in the valuation method by which fair value was determined. The three levels are defined as follows:

Level 1 – Quoted Prices in Active Markets for Identical Assets and Liabilities: The Company has no assets or liabilities measured at fair value in this category.

Level 2 – Significant Other Observable Inputs: This category, for items measured at fair value on a recurring basis, includes real estate and other invested assets which are not exchange traded. The estimated fair values of some of these items were determined by an independent appraiser using observable inputs and subsequent sales prices.

Level 3 – Significant Unobservable Inputs: The Company has no assets or liabilities measured at fair value in this category.

Description	Level 1	Level 2	Level 3	Net Asset Value (NAV)	Total
Assets on balance sheet at fair value					
Bonds	\$766,466	\$904,445	-	-	\$1,670,911
Cash and Cash Equivalents	1,552,072	-	-	-	1,552,072
Total assets on balance sheet at fair value	<u>\$2,318,538</u>	<u>\$904,445</u>	-	-	<u>\$3,222,983</u>

Southern Title Insurance Corp.
Notes to the Financial Statements for Period Ended December 31, 2020

At the end of each reporting period, the Company evaluates whether or not any event has occurred, or circumstances have changed, that would cause an instrument to be transferred between levels. At this time, there have been no transfers between levels.

(2) Rollforward of Level 3 Items – Not Applicable

(3) Policy on Transfers Into and Out of Level 3

At the end of each reporting period, the Company evaluates whether or not any event has occurred, or circumstances have changed, that would cause an instrument to be transferred into or out of Level 3. During the current year, no transfers into or out of Level 3 were required.

B. Other Fair Value Disclosures – Not Applicable

C. Fair Values for all Financial Instruments by Levels 1, 2, and 3

The table below reflects the fair values and admitted values of all admitted assets and liabilities that are financial instruments. The fair values are also categorized into the three-level hierarchy as described above in Note 20.A.

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3	Net Asset Value (NAV)	Not Practicable (Carrying Value)
Financial Instruments Assets							
Bonds	\$1,670,911	\$1,670,911	\$766,466	\$904,445			
Cash and Cash Equivalents	1,552,072	1,552,072	1,552,072	-	-	-	-
Total Assets	<u>\$3,222,983</u>	<u>\$3,222,983</u>	<u>\$2,318,538</u>	<u>\$904,445</u>	-	-	-
					-	-	-
					-	-	-
					-	-	-

D. Not Practicable to Estimate Fair Values – Not Applicable

21. **OTHER ITEMS**

The following amounts were not represented in the financial statements as of December 31, 2020, as they represent segregated funds held for others:

Cash deposits of \$126,391, were not reported in the financial statements as of December 31, 2020, as these deposits represented funds held in an escrow account.

The liquidation order allowed the Deputy Receiver to use assets equal to the value of the unearned premium reserves (“UPR”), as measured on the receivership date, to consummate contracts of reinsurance to pay all policyholder claims; however, if no such contracts of reinsurance are effectuated, then such assets are to be distributed according to the order of preference in Section 38.2-4613C of the Virginia Insurance Code (“Code”). It was determined that the UPR equaled \$9,974,279 on the receivership date.

As funds are used for the designated purposes, the liquidation order authorized that the financial statements of the Company should report the declining UPR balance as the initial amount less a designated percentage of the amount of any distribution or payment made in accordance with Section 38.2-4613 of the Code. Non-UPR assets of the Company may be used in accordance with Section 38.2-1509 of the Code, and since both Code provisions allow for payment of the costs and expenses of administration, as well as the payment of policyholder claims, such costs and expenses will be allocated between UPR and non-UPR assets in the proportion that those assets bear to the value of all estate assets.

Southern Title Insurance Corp.
Notes to the Financial Statements for Period Ended December 31, 2020

At December 31, 2011, total admitted assets were \$15,605,758, of which 63.91% are UPR assets and 36.09% are non-UPR assets. The costs of administration have been allocated each year in accordance with these percentages.

22. EVENTS SUBSEQUENT – NONE

E. Asset Recovery Litigation

Cunningham, et al. v. Uddin

The payments on the judgment compromise have been received through February of 2021.

E. REINSURANCE – NO CHANGE

F. CHANGE IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2020, and December 31, 2019, known claims reserves were \$12.002 million and \$12.002 million, respectively.

G. SUPPLEMENTAL RESERVE

The Company does not use discounting in the calculation of its supplemental reserve.