



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**CHICAGO TITLE INSURANCE COMPANY OF OREGON
PORTLAND, OREGON**

NAIC COMPANY CODE 50490

AS OF

December 31, 2003

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March 11, 2005

Honorable Cory Streisinger, Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE, Room 440
Salem, Oregon 97301-3883

Dear Director:

In accordance with your instructions and pursuant to the provisions of ORS 731.300, we have examined the business affairs and financial condition of

CHICAGO TITLE INSURANCE COMPANY OF OREGON
888 SW Fifth Avenue
Portland, Oregon 97204

NAIC Company Code 50490

hereinafter referred to as the "Company." The following report is respectfully submitted.

SCOPE OF EXAMINATION

This regular triennial examination of the Company was conducted as of December 31, 2003, covering the three-year period then ended, and included a review of material transactions or events which occurred subsequent to the examination cut-off date and were noted during the examination.

The examination was conducted pursuant to the provisions of ORS 731.300 and in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) for the purpose of determining the Company's financial condition, ability to fulfill and the manner of fulfillment of its obligations, the nature of its operations, and compliance with the Insurance Code. Accounting methods, internal control procedures, records, and other supporting evidence were examined or tested by appropriate methods to the extent deemed necessary and appropriate for the type, volume, and complexity of the accounting system and operations utilized by the Company. The record testing included, but was not limited to, assets, liabilities, income and expense related items. A review was also made of the corrective actions taken by the Company with respect to comments and/or recommendations in the previous report of examination as of December 31, 2000.

COMPANY HISTORY

The Company was incorporated as National Title Company and commenced business on May 1, 1970, as an Idaho domestic company. National Title Company was a wholly owned subsidiary of SAFECO Title Insurance Company of Idaho. Effective August 19, 1975, National Title Company became an Oregon domestic and its name was changed from National Title Company to SAFECO Title Insurance Company of Oregon.

On March 22, 1977, the outstanding stock of SAFECO Title Insurance Company of Oregon was acquired from SAFECO Title Insurance Company of Idaho by SAFECO Title Insurance Company of California, which was owned by SAFECO Corporation of Washington.

In January 1987, Chicago Title and Trust Company, an Illinois corporation, acquired 100% of the SAFECO Corporation's holding in the various title companies. In March of 1988, the company name was changed from SAFECO Title Insurance Company of Oregon to Chicago Title Insurance Company of Oregon.

On March 20, 2000, Fidelity National Financial merged with Chicago Title and Trust Company IL. As a result of that merger, Fidelity National Financial became the Company's ultimate parent.

CAPITALIZATION

There are 1,000 shares of \$300 par value common stock authorized, all of which are issued and outstanding at December 31, 2003. Security Union Title Insurance Company (SUTIC), a California domiciled insurer, owns 100% of the Company's outstanding shares.

MANAGEMENT AND CONTROL

The Bylaws vest management and control of the Company in a Board of Directors consisting of between 5 and 15 members. The Board of Directors meets all of the requirements of ORS 732.305. The following were the directors serving at December 31, 2003:

<u>Name and Address</u>	<u>Affiliation</u>	<u>Director Since</u>
Donna J. Devine 222 High Street SE Salem, OR 97308	Vice President – Special Projects Ticor Title Company of Oregon	1992
Casey DiPietro 10135 SE Sunnyside Road Clackamas, OR 97015	Manager Escrow Chicago Title Insurance Company of Oregon	1997
Bradley J. London 10135 SE Sunnyside Road Clackamas, OR 97015	President Chicago Title Insurance Company of Oregon	1988
Malcolm D. Newkirk 888 SW Fifth Avenue Portland, OR 97204	State Underwriter Chicago Title Insurance Company of Oregon	1995
Pamela K. Epley 10135 SE Sunnyside Road Clackamas, OR 97015	Manager Escrow Chicago Title Insurance Company of Oregon	2001
Raymond R. Quirk* 4050 Calle Real Santa Barbara, CA 93110 *Chairman of the Board	President & Chief Operating Officer Fidelity National Financial Inc.	2003

Officers

The following are principal officers elected and serving the Company at December 31, 2003:

<u>Name</u>	<u>Office</u>
Raymond R. Quirk	Chairman of the Board and Chief Executive Officer
Bradley J. London	President
Todd C. Johnson	Senior Vice President & Secretary
Alan L. Stinson	Executive Vice President & Chief Financial Officer
Thomas E. Evans, Jr.	Executive Vice President
Patrick G. Farenga	Vice President & Treasurer
Ronald R. Maudsley	Executive Vice President
Peter T. Sadowski	Executive Vice President
Ernest D. Smith	Executive Vice President

Parent, Subsidiary and Affiliated Companies

The Company is part of a group of companies that provides a variety of products and services including, but not limited to, title insurance, escrow, asset management, reinsurance, and credit reporting. The following are companies within this group that are related to the Company's operations:

Fidelity National Financial, Inc. (FNF) is a Delaware holding company and the ultimate parent to the Company.

Chicago Title & Trust (CT&T) is an Illinois company that is 100% owned by Fidelity National Financial Inc.

Security Union Title Insurance Company (SUTIC) is a California domiciled title insurer and wholly owned subsidiary of CT&T. SUTIC is the immediate parent of the Company.

The appendix to this report depicts the Company's relation to other members of the Fidelity National Financial group of companies.

INTERCOMPANY AGREEMENTS

Its parent and affiliated companies perform a portion of the Company's operations. The following is a description of the agreements under which the Company operates as of December 31, 2003:

Master Services Agreement

FNF entered into a master services agreement as of March 12, 2003, with certain subsidiary corporations or majority owned entities. FNF is the parent company of entities known as the insurance group (which includes the Company) and the real estate related services group. Fidelity National Management Services LLC (FNMS) provides claims settlement, payroll, legal, communications, advertising, regulatory,

financial, general administrative services, investment services, benefits administration, management reporting, marketing, administrative support and personnel services. Fidelity National Information Solutions, Inc., provides information technology. FNMS handles all personnel related matters for the companies signed to the agreement. The following explains how FNMS allocates the salaries among the companies:

For departments other than the corporate claims department, the premiums of each of the members who are underwriters, underwritten title companies, and agents are aggregated, and the percentage of the total is calculated for each company. Salaries are allocated to each company based on those percentages.

For the claims department, processed claims count for each of the members who are underwriters, underwritten title companies, and agents are aggregated, and the percentage of the total is calculated for each company. Salaries are allocated to each company based on those percentages.

Personal Property Lease

Beginning April 1, 2002, the Company leased personal property from Fidelity Asset Management, Inc. Other lessees signing the lease included FNF, CT&T, SUTIC and 12 other affiliated title insurers. A monthly lease payment of \$445,413 is spread among the group. Lessees must pay any taxes and insurance associated with the personal property. Lessees are individually liable for their own portion of the monthly payment. This lease can be extended through renewals to December 31, 2009.

Tax Sharing Agreement

The Company files a consolidated income tax return with FNF and affiliates. The Company has a written agreement approved by its Board of Directors, which sets forth the manner in which the total federal income tax is allocated to each entity that is a party to the consolidation. The written agreement also provides that each entity in FNF's consolidated group compute its tax as though the entity paid tax on a stand-alone basis.

CONFLICT OF INTEREST

The Company's conflict of interest policy requires officers and directors report conflicts of interest to the Company. Completed conflict of interest statements were made available for all officers and directors in compliance with ORS 732.245.

CORPORATE RECORDS

The corporate records, including the Articles of Incorporation, Bylaws and minutes of the Board of Directors meetings were reviewed for the period under examination.

Articles of Incorporation

The Articles of Incorporation conformed with Oregon statutes. No amendments were made to the Articles during the period covered by this examination.

Bylaws

The Bylaws conformed with Oregon statutes. No amendments were made to the Bylaws during the period covered by this examination.

Board of Director Minutes

A review of the Board of Director minutes indicated the Board performed its designated duties in managing the affairs of the Company as specified in the Bylaws. The Board minutes indicated that the Board approved investments in accordance with the provisions of ORS 733.730 and ORS 733.740. In addition, the minutes showed the Board approved officer salaries in accordance with the provisions of ORS 732.320(3). A quorum met at all meetings.

FIDELITY BONDS AND OTHER INSURANCE

The examination of insurance coverages involved a review of adequacy of limits and retentions, and the solvency of the insurers providing the coverages. Fidelity National Financial, Inc., purchased insurance covering it and all subsidiaries now existing or

hereafter created or acquired (which includes the Company). Fidelity coverage insures against loss resulting directly from dishonest or fraudulent acts committed by an employee acting alone or in collusion with others. This coverage is for up to an aggregate loss limit of \$30,000,000 after retention of \$250,000 per loss. Fidelity bond coverage was found to exceed the minimum coverage recommended by the NAIC. In addition, the Company is covered against professional liability for \$15,000,000 per wrongful act after retention of \$5,000,000 per loss. The following are other insurance coverages in force at December 31, 2003:

Commercial general liability	Automobile
Property insurance	Directors and officers
EDP equipment	Employment practices liability
International package	Fiduciary liability
Earthquake and flood	Fidelity - Computer crime
Workers' compensation	Excess liability

The above coverages were found to be adequate as of December 31, 2003.

PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

The Company's employees are covered by a qualified voluntary contributory savings plan ("401(k) Plan") sponsored by FNF. Under this plan, participating employees make contributions of up to 15% from pre-tax annual compensation, up to the amount allowed pursuant to the Internal Revenue Code, into individual accounts that are not generally available until the employee reaches age 59½. The Company matches participants' contributions at a rate of 50% for the first 6% of compensation.

The Company's employees are covered to participate in an employee stock purchase plan (ESPP). Eligible employees may voluntarily purchase, at current market prices, shares of FNF's common stock through payroll deduction. Pursuant to the ESPP, employees may contribute between 3% and 15% of their base salary and certain commissions. The Company contributes varying amounts as specified in the ESPP.

Certain Company officers participate in the 1991, 1993, 1998 and 2001 executive incentive stock option plans (the Plans) sponsored by FNF. Under the Plans, participants have the option to purchase shares of Fidelity National Financial stock at annually declining share prices. Options granted under these plans expire within a specified period from the grant date. There is no material effect on the Company's financial statements as the result of the creation of these Plans.

In connection with the acquisition of its parent by FNF in 2000, FNF also assumed the options outstanding under CT&T's existing stock option plans: the 1998 long term incentive plan and the directors stock option plan. Pursuant to the acquisition agreement, options under these plans became fully vested on March 20, 2000. The options granted in accordance with these two plans generally have a term of five to ten years.

In connection with the acquisition of its parent by FNF in 2000, FNF also assumed CT&T's noncontributory defined benefit plan (the Pension Plan). The Pension Plan covers certain CT&T and subsidiary employees. The benefits are based on years of service and the employee's average monthly compensation in the highest 60 consecutive calendar months during 120 months ending at retirement or termination. CT&T's funding policy is to contribute annually at least the minimum required contribution under the Employee Retirement Income Security Act (ERISA). Contributions are intended to provide not only for benefits accrued to date, but also for those expected to be earned in the future. Each year the Company is allocated net periodic pension expense from CT&T based on employee count for plan participants. Effective January 1, 2001, the Pension Plan was frozen and future contributions of the Pension Plan's benefits will terminate.

The Company recorded an additional minimum pension liability change of \$783,639 and \$1,173,692 during 2003 and 2002, respectively, for its proportional participation in the plan. For the year ended December 31, 2003, and in accordance with its interpretation of SSAP 8, Pensions, the Company recorded this change as an adjustment in its statutory equity.

FNF assumed certain health care and life insurance benefits for retired CT&T and subsidiary employees in connection with the CT&T acquisition. The cost of these benefit plans accrued during the periods the employees render service. CT&T is self insured for its post retirement health care and life insurance benefit plans, and the plans are not funded. The health care plans provide for insurance benefits after retirement and are generally contributory, with contributions adjusted annually. Post retirement life insurance benefits are contributory, with coverage amounts declining with increases in a retiree's age. The current expenses of these plans are charged to participating subsidiaries on a pass through cost basis.

Certain Company employees and directors may be eligible to participate in a non-qualified deferred compensation plan sponsored by FNF. Selected participants may elect to defer an annual amount of salary, bonus, commissions and or directors fees for a minimum of \$25,000 and a maximum of 100%. Plan assets are maintained by a trust established by the sponsor and there is no expense to the Company in connection with this plan.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to insure titles to real property and to issue policies of title insurance throughout Oregon and Kansas. At December 31, 2003, the Company had two wholly owned title plants providing full services in Clackamas, Multnomah and

Washington counties. In addition to these title plants, the Company is a partner in the Tri-county Title Plant - a partnership with nine other title insurers.

Under various underwriting agreements, the Company insures titles to real property and issues policies of title insurance in 11 other counties through agents who, at their own expense, maintain suitable offices in the counties in which they provide complete title insurance services. Policies of title insurance issued by agents must be on approved forms furnished by the Company without cost to the agent. Under a typical underwriting agreement, the agent retains 90% of the premiums as compensation on all title policies issued and, in the event of a claim on a policy issued by an agent, the agent may be responsible for reimbursing the Company for the first \$5,000 of loss if the loss is attributed to error, fault or negligence of the agent. If the loss is imputed to a matter which the agent could not reasonably determine, such as a forgery, the Company bears the entire loss.

GROWTH OF THE COMPANY

The following exhibit reflects the growth of the Company since 2000. The stated amounts were compiled from the Company's filed annual statements and, where indicated, from an examination report.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Income</u>
2000*	\$21,257,021	\$14,527,488	\$ 6,729,533	\$2,458,797
2001	25,150,463	16,078,366	9,072,095	4,407,310
2002	25,029,377	14,903,116	10,126,261	3,554,167
2003*	30,915,627	15,229,931	15,685,696	7,052,956

*Per examination

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company since 2000. The amounts were compiled from copies of the Company's filed annual statements and where indicated, from an examination report.

Income statement - Loss Ratios on A Calendar Year Basis

<u>Year</u>	(1) <u>Premium Earned</u>	(2) <u>Loss and Loss Adjustment Expenses (LAE) Incurred</u>	(2/1) <u>Ratio</u>
2000*	\$22,053,089	\$1,003,274	4.55%
2001	27,656,894	1,181,232	4.27%
2002	32,438,752	1,261,278	3.89%
2003*	35,927,653	815,927	2.27%

*Per examination

ESCROW ACCOUNTS

Escrow funds totaling \$17,603,637 as of December 31, 2003, were stated as segregated funds and excluded from the assets and liabilities reported on the annual statement.

These escrow accounts were not included in this examination because the audit of this function is the responsibility of the Oregon Real Estate Commissioner under the provisions of ORS 696.541(2).

HOLDING COMPANY REGISTRATION

Timely and complete holding company registration statements were filed by the Company in accordance with the provisions of ORS 732.552, 732.554, 732.564 and Oregon Administrative Rule (OAR) 836-27-020(1).

During the period examined, the Company paid dividends to its parent and made the proper disclosure of these dividends to the Director of the Department of Consumer and

Business Services in accordance with the reporting requirements of ORS 732.554. The Company did not pay extraordinary dividends during the period examined.

REINSURANCE

Ceded Reinsurance

Effective November 18, 2003, FNF and its subsidiaries, including the Company, signed an Excess of Title Loss treaty. Ace Capital Title Reinsurance Company, a group of Bermuda based insurers and Lloyds Syndicate underwriters reinsured the losses in the following three separate layers:

	<u>First Layer</u>	<u>Second Layer</u>	<u>Third Layer</u>
Company retention	\$10,000,000	\$20,000,000	\$40,000,000
Reinsurance per occurrence	\$10,000,000	\$20,000,000	\$40,000,000
Reinsurers annual limit	\$20,000,000	\$40,000,000	\$80,000,000

This treaty is effective through November 18, 2004, and is renewable for a one-year term.

Assumed Reinsurance

The Company reported assumed business from CTIC. The Company's maximum retention on any of its policies is \$1,500,000 per risk, which complies with ORS 731.504.

ACCOUNTS AND RECORDS

Accounting and record keeping on the corporate level is done at FNF's offices in Jacksonville, Florida. Company records and source documentation supported the amounts presented in the December 31, 2003, annual statement and in general, were maintained in a manner by which the financial condition was readily verifiable as required by ORS 733.170. The following issues however, were identified that require attention:

Custodial Agreement

Bank of New York custodial agreement contains language creating a continuing lien and security interest in the assets that are the subject of the agreement. The intent of the lien is to protect the custodian against loss of amounts due from the Company; however, the lien could impede access to the account by the Company and the Director if regulatory action should ever become necessary.

Such a lien violates ORS 733.580(2) and recommendations in the Examiners Handbook which states, "The securities, other than those held to meet deposit requirements, shall be held subject to the instructions of the insurance company, and shall be available upon the demand of the insurance company."

In addition, the custodial agreement lacks the following safeguard as recommended by the Examiners Handbook and ORS 733.210. If the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the director of the Department of Consumer and Business Services.

US National Bank's (USNB) custodial agreement was signed effective April 19, 1994. Since that time the NAIC Examiners Handbook has recommended a number of safeguards, which the USNB custodial agreement lacks. Effective February 3, 2005, the Company signed a new USNB custodial agreement which complies with the NAIC Examiners Handbook and ORS 731.574(6).

I recommend the Company revise the BNY custodial agreement to remove language that creates a lien against the assets held under the custodian arrangement, notify the Director of the Department of Consumer and Business Services within three business days of termination or withdrawal of 100% of the accounts assets to comply with the NAIC Examiners Handbook.

The BNY custodial agreement would therefore comply with ORS 731.574, 733.210, 733.580(2) and recommendations in the NAIC Examiners Handbook.

Taxes

State income tax payable was overstated in the annual statement by \$400,000. This was caused by the Company using GAAP rather than SAP numbers in its tax estimates during prior years. In addition it did not adjust the general ledger to actual expenses for the prior years statements. The Company is going to adjust their statement for the difference in the first quarter of 2005 financial statements. I did not make the adjustment to the financial statements since the \$400,000 is less than the materiality level of 5% of surplus level (about \$750,000) set for this examination.

I recommend the Company adjust its State Income Tax Payable to a SAP (Statutory Accounting Principles) basis rather than a GAAP basis to comply with ORS 731.574 and 733.170.

PRIOR EXAMINATION RECOMMENDATIONS

1. I recommend the Company enter into a management agreement with REEI in order to establish written responsibilities of the parties and make known any fees payable by REEI. The provisions of ORS 733.170 support this recommendation.

REEI no longer exists as a company. No management agreement needs be signed with them.

2. I recommend the Company obtain the Insurance Director's approval for a written intercompany agreement with Rocky Mountain Support Service. This agreement should disclose clearly and accurately the precise nature and details of the transactions in the ordinary course of business. The provisions of ORS 732.574 support this recommendation.

Rocky Mountain Support Service no longer exists, so no intercompany agreement with them is needed.

3. I recommend all officers and directors complete and make available for review conflict of interest statements annually to comply with ORS 732.245.

All the directors and officers completed conflict of interest statements during the period covered by this examination.

4. I recommend that all cash transactions be recorded in the general ledger in an appropriate time frame to correctly state cash balance. This recommendation is made in accordance with ORS 733.210 and the NAIC Property & Casualty Annual Statement Instructions.

The above recommendation was satisfied by replacing an accounting manager and strengthening accounting controls and requiring bank reconciliations be performed timely and accurately.

5. I recommend the Company reduce the amount of such investments to comply with ORS 733.770.

The Company held about \$5 million in a money market account as of December 31, 2003, which is \$1.9 million over the 10% of assets rule provision of ORS 733.770. In July 2004 the Company reduced this balance below the 10% of admitted assets.

6. I recommend the Company maintain records in the State of Oregon in accordance with the provisions of ORS 732.245.

During the last examination the records were located in Santa Barbara, California. Company personnel shipped hardcopies of the records or sent them via e-mail. The Company continues to maintain its records outside of Oregon. The division has determined however that compliance with this statute will be met as long as records are timely provided.

7. I recommend the Company only report premiums receivable, which are less than 90 days old as admitted assets to comply with the provisions of ORS 731.574 and the Annual Statement Instructions.

Premiums receivable were revised such that those over 90 days overdue are no longer listed as admitted assets. This change was accomplished during fieldwork for the last examination.

8. I recommend the Company comply with ORS 732.574(2)(a)(A) and obtain approval from the director of the Department of Consumer Business Services on all loans which exceed 3% of the Company's allowed assets or 25% of combined capital and surplus.

There is no evidence the Company is engaging in the practice of loaning its assets in excess of 3% of allowed assets (during this audit).

CHICAGO TITLE INSURANCE COMPANY OF OREGON
BALANCE SHEET
As of December 31, 2003

<u>ASSETS</u>	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds (Note 1)	\$19,572,932	\$	\$19,572,932
Common stock	287,972		287,972
Cash & short term investments	7,301,010		7,301,010
Other invested assets	155,246		155,246
Receivable for securities (Note 2)	1,255	(1,255)	
Investment income due & accrued (Note 2)	256,875	1,255	258,130
Uncollected premiums and agents balances in course of collection	104,578		104,578
Current federal and foreign income tax due	69,169		69,169
Net deferred tax asset	571,347		571,347
Receivable from parent, subsidiaries & affiliates	1,983,036		1,983,036
Title plant	<u>612,207</u>	<u>0</u>	<u>612,207</u>
Total Assets	<u>\$30,915,627</u>	<u>\$ 0</u>	<u>\$30,915,627</u>
 <u>LIABILITIES</u>			
Known claims reserve (Note 3)	\$ 1,026,161		\$ 1,026,161
Statutory premium reserve	9,083,079		9,083,079
Other expenses (Note 4)	4,332,980	34,090	4,367,070
Taxes licenses & fees	583,464		583,464
Amounts withheld for others (Note 4)	34,090	(34,090)	
Drafts outstanding (Note 5)	4,710	(4,710)	
Payable to parent, subsidiaries and affiliates	165,447		165,447
Aggregate write-ins for other liabilities (Note 5)	<u>0</u>	<u>4,710</u>	<u>4,710</u>
Total Liabilities	<u>15,229,931</u>	<u>0</u>	<u>15,229,931</u>
 <u>SURPLUS</u>			
Common capital stock	300,000		300,000
Gross paid in and contributed surplus	2,433,152		2,433,152
Unassigned funds	<u>12,952,544</u>	<u>(0)</u>	<u>12,952,544</u>
Surplus as regards policyholders	<u>15,685,696</u>	<u>(0)</u>	<u>15,685,696</u>
Total Liabilities and Surplus	<u>\$30,915,627</u>	<u>\$ 0</u>	<u>\$30,915,627</u>

CHICAGO TITLE INSURANCE COMPANY OF OREGON
SUMMARY OF OPERATIONS
For the Year Ended December 31, 2003

OPERATING INCOME

Title insurance premiums earned	\$35,927,653
Escrow and settlement services	6,351,676
Other title fees and service charges	<u>3,101,701</u>
Total operating income	<u>45,381,030</u>

DEDUCT

Losses and loss adjustment expenses incurred	815,927
Operating expenses incurred	<u>37,569,765</u>
Total operating deductions	<u>38,385,692</u>
Net operating gain	<u>6,995,338</u>

INVESTMENT INCOME

Net investment income earned	725,533
Net realized capital gains	<u>3,094,735</u>
Net investment gain	<u>3,820,268</u>

OTHER INCOME

Net income before Federal taxes	10,815,606
Federal income taxes incurred	<u>3,762,650</u>
Net income	<u>\$ 7,052,956</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2002	<u>\$10,126,263</u>
Net income	7,052,956
Net unrealized capital gains or losses	2,493,666
Change in net deferred income tax	(32,387)
Change in nonadmitted assets	283,837
Dividends to stockholders (cash)	(3,500,000)
Aggregate write-ins for gains and losses in surplus	<u>(738,639)</u>
Change in surplus as regards policyholders for the year	<u>5,559,433</u>
Surplus as regards policyholders, December 31, 2003	<u>\$15,685,696</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds

Investments in bonds represent 63% of the total admitted assets of the Company at December 31, 2003. US government-backed bonds accounted for 30% while industrial and miscellaneous bonds comprised 34% of the portfolio. The remaining 36% were state and political subdivisions and special revenue backed bonds. The Company did not have any investments in medium or low-grade bonds as of December 31, 2003. A quality distribution of the Company's bonds is presented below:

Year	Statement Value of Securities	Market Value of Securities	Medium and Low Grade Securities*	Percent of Portfolio
2000	\$12,029,720	\$12,035,966	\$0	0%
2001	\$16,092,202	\$16,296,093	\$0	0%
2002	\$15,453,615	\$15,702,412	\$0	0%
2003	\$19,572,932	\$19,708,938	\$0	0%

*Medium grade is defined by the NAIC as those securities with a NAIC Securities Valuation Office rating of "3." SVO designations of "4" to "6" are considered low investment grade.

Note 2 - Receivable for Securities

Dividends receivable on two mutual funds was misclassified as receivable for securities. They should be classified as interest income due and accrued pursuant to the NAIC Annual Statement Instructions for Title Companies (page #48) and ORS 731.574(1).

Note 3 - Known Claims Reserve

David F. Dahl, ACAS, MAAA, actuary for the State of Oregon, Department of Consumer and Business Services, Insurance Division, reviewed the liabilities established by the Company for losses and loss adjustment expenses in the Company's filed financial statements as of December 31, 2003. The purpose of his review was to determine in general if the Company's liabilities were reasonably stated. He determined the Company's liability for losses and loss adjustment expenses were reasonably stated as of December 31, 2003.

Note 4 - Other Expenses

Lease payments on the personal property lease were misclassified as amounts withheld for account of others. They should be classified as other expenses pursuant to the provisions of the NAIC Annual Statement Instructions for Title Companies (page #53, Line 14) and ORS 731.302(1).

A search for unrecorded liabilities showed the accounts payable were under-accrued by about \$50,000 for expenses incurred in 2003 not paid until 2004. Incentive compensation bonuses for 2003, paid in 2004 were under-accrued by \$52,047. These adjustments were not made since they are not considered material.

Note 5 - Drafts Outstanding

Stale dated checks of \$4,710 were misclassified as drafts outstanding. Outstanding checks pending escheatment should be classified as aggregate write-ins for other liabilities in accordance with the NAIC Annual Statement Instructions for Title Companies, page 54, and ORS 731.574.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Following is a summary of the comments and recommendations made as a result of this examination.

Page

- 16 I recommend the Company revise the BNY custodial agreement to remove language that creates a lien against the assets held under the custodian arrangement, notify the Director of Department of Consumer and Business Services within three business days of termination or withdrawal of 100% of the accounts assets to comply with the NAIC Examiners Handbook. The BNY custodial agreement would therefore comply with ORS 731.574, 733.210, 733.580(2) and recommendations in the NAIC Examiners Handbook.
- 17 I recommend the Company adjust its State Income Tax Payable to SAP (Statutory Accounting Principles) basis rather than a GAAP basis to comply with ORS 731.574 and 733.170.

CONCLUSION

During the three year period covered by this examination, the surplus of the Company has increased from \$6,729,533 as presented in the December 31, 2000, report of examination, to \$15,685,696 as shown in this report of examination. The comparative assets and liabilities are shown below:

	December 31,		
	<u>2003</u>	<u>2000</u>	<u>Change</u>
Assets	\$30,915,627	\$21,257,021	\$9,658,606
Liabilities	<u>15,229,931</u>	<u>14,527,488</u>	<u>702,443</u>
Surplus	<u>\$15,685,696</u>	<u>\$ 6,729,533</u>	<u>\$8,956,163</u>

SUBSEQUENT EVENT

During 2004, the Company paid two dividends totaling \$7,000,000 to SUTIC. The dividends were \$3,500,000 each. The first was declared in the first quarter of 2004 and paid April 1, 2004. The second was declared in December 2004 and paid December 31, 2004.

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, Timothy R. Hurley, CFE, insurance examiner, David N. Ball, FCAS, MAAA, and David F. Dahl, ACAS, MAAA, actuaries for the State of Oregon Department of Consumer and Business Services, Insurance Division participated in the examination.

Respectfully submitted,

Michael P. Phillips, CFE, CPA, AES
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Michael P. Phillips, being duly sworn, deposes and says that the foregoing report of examination as of December 31, 2003, of Chicago Title Insurance Company of Oregon, Portland, Oregon, subscribed by him is true to the best of his knowledge and belief.

Michael P. Phillips, CFE, CPA, AES
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn before me this _____ day of _____, 2005.

Notary Public in and for the State of Oregon
My Commission Expires: _____