REPORT OF EXAMINATION
OF THE
FIRST AMERICAN TITLE INSURANCE COMPANY
AS OF
DECEMBER 31, 2012

Filed March 19, 2014

TABLE OF CONTENTS

PAGE

SCOPE OF EXAMINATION 1

COMPANY HISTORY: 2
Reorganization 2
Instrument of Transfer and Assumption Agreement 3
Capitalization 3
Mergers of Subsidiaries 5
Related Party Transactions 6
Dividends Paid to Parent 7

MANAGEMENT AND CONTROL: 8
Management Agreements 10

TERRITORY AND PLAN OF OPERATION 13

LOSS EXPERIENCE 14

REINSURANCE: 15
Assumed 15
Ceded 16

ACCOUNTS AND RECORDS 17

FINANCIAL STATEMENTS: 18
Statement of Financial Condition as of December 31, 2012 19
Operations and Investment Exhibit for the Year Ended December 31, 2012 20
Reconciliation of Surplus as Regards Policyholders from December 31, 2007 through December 31, 2012 21

COMMENTS ON FINANCIAL STATEMENT ITEMS: 22
Known Claims Reserve 22
Statutory Premium Reserve 22
Supplemental Reserve 22

SUMMARY OF COMMENTS AND RECOMMENDATIONS: 23
Current Report of Examination 23
Previous Report of Examination 24

ACKNOWLEDGMENT 27

Los Angeles, California
January 23, 2014

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

FIRST AMERICAN TITLE INSURANCE COMPANY

(hereinafter also referred to as the Company or FATICO) at its home office located at 1 First American Way, Santa Ana, California 92707.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2012. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination was initially a coordinated examination as of December 31, 2010, and was conducted concurrently with the examinations of other insurance entities in the holding company group, namely United General Title Insurance Company (California), and First American Title Insurance Company of Oregon (FATICO Oregon). The Oregon Department of Insurance (Oregon DOI) participated in the 2010 examination of the Company. However, the 2010 examination of the Company was recessed and completed herein as a roll-forward examination as of December 31, 2012. During 2012 FATICO Oregon was merged into the Company and therefore the Oregon DOI did not participate in the 2012 examination.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; and statutory deposits.

COMPANY HISTORY

The Company was incorporated on September 24, 1968, and commenced business on December 31, 1968. Before the reorganization in 2010 the Company was previously owned 100% by the First American Corporation (FAC).

Reorganization

On March 19, 2010, the California Department of Insurance (CDI) approved a reorganization (the "Spin-off Transaction") which accomplished the separation of the Company and certain affiliates from FAC, and their concurrent transfer into First American Financial Corporation (FAFC). Effective June 1, 2010, FAC was reorganized into two independent public companies: (1) First American Financial Corporation (FAFC), and (2) FAC itself, renamed as CoreLogic, Incorporated (Core Logic). The Company is currently 100% owned by the new parent, FAFC.

The reorganization transferred assets from the parent (FAFC), in the form of affiliated ownership interests of $252 million, into the Company and assets of $215 million were transferred out from the Company to the parent, resulting in an initial net surplus increase of $37 million. The specific assets (representing common shares and Limited Liability Company (LLC) – membership interests) transferred into the Company are listed below:

Asset	Valued at Transfer Date
First American Data Company, LLC	$ 95 million
First American Financial International Holdings B.V.	11 million
Core Logic, Inc.	146 million
Total assets received	$252 million

Instrument of Transfer and Assumption Agreement

On October 23, 2008, the CDI approved the Instrument of Transfer and Assumption Agreement of United General Title Insurance Company (UGTIC), a wholly-owned subsidiary of the Company, wherein 100% of the business, assets and liabilities of UGTIC were assumed by the Company.

Capitalization

The Company is authorized to issue 10 million shares of common stock with a par value of $100 per share. As of December 31, 2012, there were 2 million shares issued and outstanding.

During the period covered by this examination the Company recorded net increases to gross paid-in and contributed surplus of (1) $175 million, (2) $11.9 million, (3) $88.1 million, (4) $15.3 million and (5) $.5 million, for years 2008, 2009, 2010, 2011, and 2012 respectively. The following narratives provide more detail for the five year total increase of $290.8 million during the examination period:

1) On December 31, 2008, the Company received as capital contributions from its then parent, FAC: (a) 1,000 common shares of its affiliate First American Professional Real Estate Services, then valued at $43.2 million; (b) 3,000 common shares of its affiliate First American Trust Company, then valued at $31.8 million.

In addition, as of December 31, 2008, the Company reported (c) a $100 million capital contribution receivable as an admitted asset from its then parent, FAC. On February 28, 2009, in accordance with the Statement of Statutory Accounting Principles (SSAP) No. 72, the Company received approval from the CDI to report a capital contribution receivable from FAC consisting of $45 million to be paid in cash and $10 million to be paid in marketable securities. Additionally, on February 28, 2009, pursuant to SSAP No. 97, paragraph 8, the CDI issued a permitted accounting practice enabling the Company to report, as of December 31, 2008, a capital contribution receivable from FAC consisting of a 30% ownership interest in an affiliate, LeadClick Holdings, LLC (LeadClick) with a stated value of $45 million.

On March 2, 2009, the $100 million capital contribution receivable was settled as the Company received from FAC $45 million in cash, $10 million in marketable securities and a 30% ownership interest in LeadClick with a value of $45 million.

2) During 2009 the Company's then parent, FAC, contributed to the Company its investment in a subsidiary American Data Exchange Corporation Ltd., with a stated value of $11.9 million.

3) During 2010 the Company recorded net capital contributions totaling $88.1 million as follows:

Description	Amount
Additional investment in UGTIC	$ 45.8 million
Spin-off transaction	44.5 million

Other	(2.2 million)
Total assets received	$ 88.1 million

The capital contribution identified as “additional investment in UGTIC” represented adjustments related to the booking of goodwill obtained pursuant to the Instrument of Transfer and Assumption Agreement discussed previously. The Spin-off transaction is more fully discussed above under the heading of “Reorganization”, and the initial $37 million surplus increase was adjusted to $44.5 million which reflected statutory revaluations. The “Other” category of capital contributions is the net amount of several relatively small adjustments that were not material and warrant no further discussion.

4) During 2011 the Company’s current parent, FAFC, contributed a net total of $15.3 million to the Company with these asset/liability transfers: $11.2 million in assets from First American Leasing Company, a New York office building valued at $4.9 million, and ($.8 million) defined as “other”.

5) During 2012 the Company’s parent, FAFC, contributed assets to offset an assignment of the merged First American Title Insurance Company of Oregon’s (FATICO of Oregon) pension in a net total contribution of $.5 million.

Mergers of Subsidiaries

Some of the wholly-owned subsidiaries of the Company were merged into the Company at book value, during 2009 thru 2012, and did not impact the Company’s surplus as regards policyholders at the merger dates. The two more significant of these mergers were:

(1) First American Title Insurance Company of New York (FATICO of NY), which had a statement value of $107.7 million at the merger date, was merged into the Company on September 30, 2010.

(2) First American Title Company of Oregon (FATICO of Oregon), which had a statement value of $27.9 million at the merger date, was merged into the Company on October 31, 2012.

Related Party Transactions

On March 31, 2008 and June 30, 2008, the Company converted the $135 million due from its former parent, FAC, into two promissory notes of $115 million and $20 million, respectively. These two notes were then combined into one promissory note during 2009 and it was extended to May 31, 2010. On June 1, 2010, as a result of the reorganization ("Spin-off Transaction" discussed previously), a $45 million reduction of the note occurred related to the cash and non-cash transfers into and out of the Company, and a further reduction of $20 million occurred related to a declared dividend. The remaining $70 million balance on the promissory note, now payable by FAFC as successor in interest to FAC, was extended to December 31, 2011, at the interest rate of 3.29%. Subsequently, an additional $25 million was paid down via a settlement of intercompany balances. Effective December 31, 2011, the note with a remaining balance of $45 million was amended and restated to extend the repayment date to December 31, 2013 at the interest rate of 3.29%.

In 2012, the Company received non-cash dividends totaling $38.9 million from its then subsidiary First American Homebuyers Protection Corporation (FAHPC). These non-cash dividends represented promissory notes owed by FAFC to FAHPC. On September 30, 2012, these additional promissory notes due from FAFC were combined with the aforementioned $45 million note into one note now totaling $83.9 million which is due on December 31, 2013, at the interest rate of 3.49%. The promissory note is secured by the capital stock of affiliates; First American Property and Casualty Insurance Company and First American Specialty Insurance Company. The increase in the balance of the combined promissory note exceeded the threshold amount under California Insurance Code 1215.5(b)(1) and required a Form D filing. The Company subsequently filed a Form D notice to CDI on April 11, 2013, which was acknowledged

by the CDI on April 16, 2013. The Company has stated it now has procedures in place to identify and report such material related party transactions in the future.

Dividends Paid to Parent

During the five year period covered by this examination the Company paid out a total of $440.7 million in stockholder dividends as follows:

In 2009, the Company declared and paid $60 million of ordinary cash dividends to its then parent, FAC.

In 2010, the Company declared $117.6 million of ordinary cash dividends to its parent, FAFC, of which $87.6 million was paid during the year and $30 million was accrued for as a liability at December 31, 2010, and subsequently paid during the first quarter of 2011.

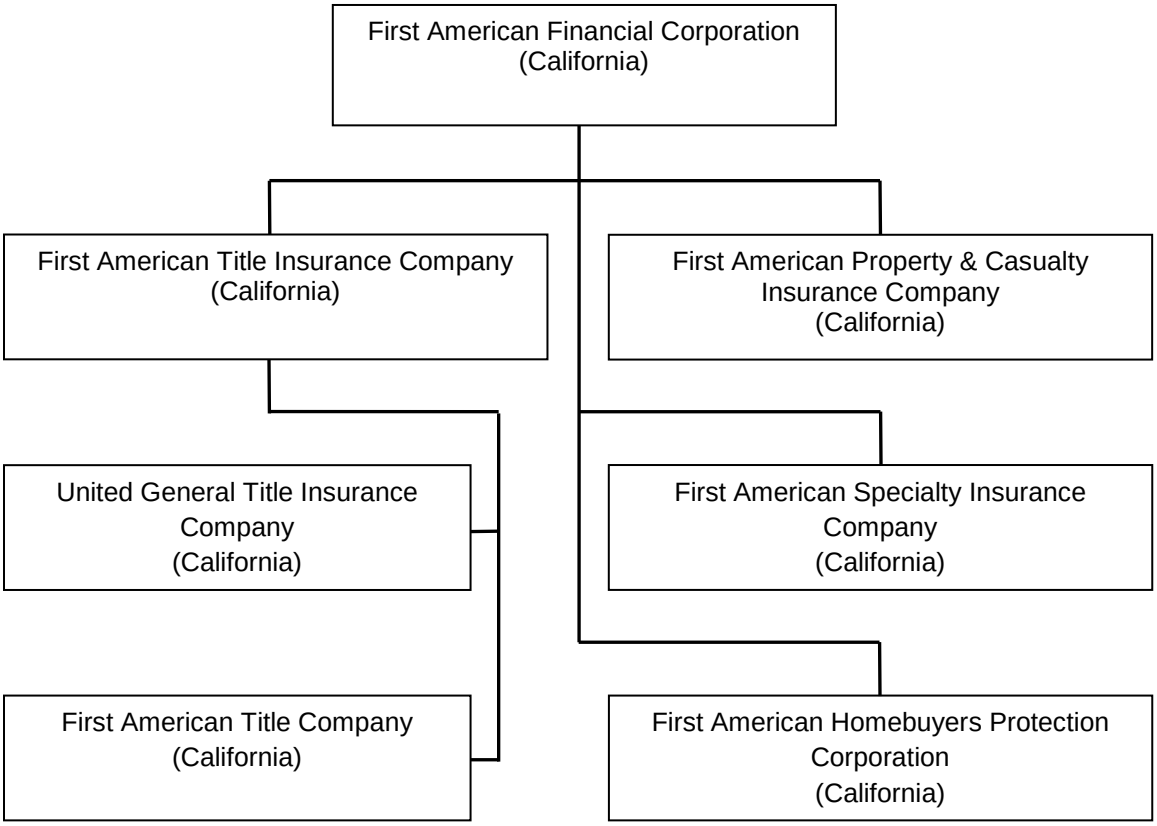
In 2011, the Company declared and paid $44.6 million of ordinary cash dividends to its parent, FAFC.

In 2012, the Company declared and paid dividends to its parent, FAFC, totaling $218.5 million. Of these dividends, $1.3 million were ordinary cash dividends and $217.2 million were non-cash extraordinary dividends consisting of the following:

a) The common capital stock of subsidiary First American Homebuyers Protection Corporation at a book value of $78.7 million on the September 18, 2012 disposal date. The CDI approved this extraordinary dividend on September 18, 2012.
b) The Company's 50% membership interest in First American Data Company, LLC (the holding company of Data Trace Information Services, LLC and First American Data Tree, LLC) with a book value of $138.5 million at the December 12, 2012 settlement date. The CDI approved this extraordinary dividend on November 16, 2012.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of First American Financial Corporation, a California corporation. The following abridged organizational chart depicts the Company's relationship within the holding company system (all ownership is 100%):



The five members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2012:

Directors

Name and Residence	Principal Business Affiliation
Dennis J. Gilmore Corona Del Mar, California	Chief Executive Officer and President First American Title Insurance Company
Timothy V. Kemp Corona Del Mar, California	Secretary First American Title Insurance Company
Christopher M. Leavell Coto de Caza, California	Executive Vice President, Chief Operating Officer, First American Title Insurance Company
Jeffrey S. Robinson Lake Forest, California	Assistant Secretary First American Title Insurance Company
Mark E. Seaton Newport Beach, California	Senior Vice President, Finance, First American Title Insurance Company

Principal Officers

Name	Title
Dennis J. Gilmore	President and Chief Executive Officer
Timothy V. Kemp	Secretary
Max O. Valdes (a)	Chief Financial Officer
Phillip R. Cannan	Executive Vice President and Division President
Curtis A. Caspersen	Executive Vice President and Division President
Larry M. Davidson	Senior Vice President and Chief Operating Officer Specialized Divisions
Patrick G. Farenga	Treasurer and Senior Vice President
Thomas S. Hartman	Executive Vice President and Division President

Name	Title
John M. Hollenbeck	Executive Vice President and Division President
Curt G. Johnson	Vice Chairman
Christopher M. Leavell	Executive Vice President and Chief Operating Officer
Kurt P. Pfotenhauer	Executive Vice President and Vice Chairman
Sally F. Tyler	Executive Vice President and Division President

The following changes in management occurred subsequent to the examination date:

(a) Max O. Valdes retired effective March 28, 2013, and was replaced as Chief Financial Officer by Mark E. Seaton on March 28, 2013.

Management Agreements

Cost Allocation Agreement: The Company and its former parent, First American Corporation (FAC), were parties to this agreement until the reorganization effective June 1, 2010, upon which First American Financial Corporation (FAFC) became the new parent. The Company provided services, facilities and benefits which were requested by FAC and which were available from the Company. According to the agreement, allocated costs or expenses for services provided by the Company to FAC shall be paid to the Company within 90 days from the date of allocation. This agreement with FAC appears to be outdated as FAFC is now the parent. Since June 1, 2010, the Company provides these same services, facilities, and benefits to FAFC, evidently without a replacement agreement in place to include its new parent company. It is recommended that the Company replace this cost allocation agreement and submit the new agreement to the California Department of Insurance (CDI) for approval in accordance with California Insurance Code section 1215.5(b)(4). Subsequently on October 1, 2013, the Company submitted an amended Cost Allocation Agreement to the CDI legal staff. Approval is pending.

Affiliated Companies Service Agreement: The Company has been providing certain

services to numerous affiliates (principally Company subsidiaries) which include accounting, auditing, title plant and policy production, information technology, and other functional support services related to purchasing, payroll, human resources, marketing, and finance, divisional and executive management. Initially the Company did not have a written agreement in place regarding services provided. During the examination it was recommended that the Company enter into a written agreement to cover such affiliates and subsidiaries, and submit it to the CDI for approval. The Company submitted an agreement with an effective date of December 31, 2012, to the CDI which was approved on December 17, 2012.

Federal Tax Sharing Agreement: Effective September 1, 2012, the Company entered into a new federal tax sharing agreement with its parent First American Financial Corporation (FAFC) and other affiliated companies. The allocation of federal income tax liability is based on the percentage that the separate federal income tax liability of each member bears to the sum of the separate federal income tax liabilities for all members. The members of the group that incurred losses or other tax benefits that have been utilized by the group to reduce consolidated federal tax liability are compensated for the use of the benefits. Any excess of the amount previously paid by a member over the allocated liability shall be paid by FAFC to such member. The allocation, reporting, and remittances shall be completed within 30 days after the due date, including extensions, of the consolidated federal tax return for each year. The CDI approved this federal tax sharing agreement on August 23, 2012.

Management and Services Agreement: The Company and its affiliates are parties to a Management and Services Agreement, effective January 1, 2006. Under the terms of the agreement, the Company and its affiliate, First American Specialty Insurance Company, may provide services to any party to the agreement which includes First American Property & Casualty Insurance Company and various other affiliates. The services may include, but are not limited to, accounting, tax and auditing, accounts receivable, actuarial, asset disposition, corporate, data processing, external, internal and regulatory communications, human resources, litigation, payroll, treasury, and

investment support. The agreement was approved by the CDI on January 25, 2006.

Underwriting Agreement: On April 28, 1997, the Company and its subsidiary underwritten title company, First American Title Company (FATCO), entered into an Underwriting Agreement ("Agreement") whereby FATCO issues Company title insurance policies covering real property located in certain counties in California. FATCO also was to pay a maximum deductible of $5,000 for each and every loss. On April 29, 2009, the Company and FATCO amended the Agreement. Pursuant to the new terms of the Agreement, FATCO remits 30%, instead of 5%, of title insurance premium to the Company and FATCO now pays no deductible to the Company for future title insurance loss. The terms of the Agreement were materially changed, however the Company has not submitted the amended Agreement to the CDI for approval. It is recommended that the Company submit the amended Agreement to the CDI pursuant to CIC Section 1215.5(b)(4).

In addition to issuing Company title insurance policies covering real property within California, FATCO sells Company title insurance policies covering real property located in states other than California. As compensation for its services, FATCO is paid a percentage of the title insurance premium ranging from 15% to 40%, depending on the state in which the policy is issued. However, the Company and FATCO have not entered into a written agreement for this business outside of California. It is recommended that the Company submit an underwriting agreement with FATCO for the non-California business segment to the CDI for approval pursuant to CIC Section 1215.5(b)(4).

Title Plant Maintenance Service: The Company has engaged Data Trace Information Services, LLC (Data Trace) and First American Data Tree, LLC (Data Tree) to maintain a portion of its title plants. The parent company, FAFC, now owns 100% of Data Trace and Data Tree. The Company, in lieu of a written agreement in a form compliant to CIC Section 1215.5(b)(4), has provided the examiners with an unexecuted specimen copy of a generic "master license agreement" that the Data Trace and Data Tree companies

use when contracting with a variety of affiliated and non-affiliated companies. It is recommended that the Company submit either this master license agreement or a service agreement in good form to the CDI for approval pursuant to CIC Section 1215.5(b)(4).

In addition to the above affiliated relationship, the Company itself provides Data Trace and Data Tree certain services for fees. However, the Company and Data Trace/Data Tree have apparently not entered into a written agreement for these services. It is recommended that the Company prepare and submit a services agreement with Data Trace/Data Tree to the CDI for approval pursuant to CIC Section 1215.5(b)(4).

Services Arrangements – Title Searches: During the period covered by this examination the Company became party to services arrangements with affiliated corporations in India (First American (India) Private Limited) and in the Philippines (AMDATEX Las Pinas Services Inc. and AMDATEX Services Corporation). These three foreign affiliates provide title search services for the Company on a fee basis. The amounts paid by the Company are material. However, as of December 31, 2012, the Company did not appear to have written services agreements in place with the indicated affiliates. It is recommended that the Company prepare and submit services agreements to the CDI for approval pursuant to CIC Section 1215.5(b) (4).

TERRITORY AND PLAN OF OPERATION

As of December 31, 2012, the Company was licensed to transact title insurance business in the District of Columbia and in all states except Iowa. The Company is also licensed in Canada, Guam, Hong Kong, Korea, Mexico, Puerto Rico, and the U.S. Virgin Islands.

During 2012, the Company wrote $3.2 billion of direct premiums and other related revenues of which $.9 billion were produced through direct operations, $1.6 billion through non-affiliated agencies, and $.7 billion through affiliated agencies. Of the direct

premiums, $431 million (13.5%) were written in California, $316 million (9.8%) were written in Texas, and approximately $2.453 billion (76.7%) were written in the remaining states and jurisdictions.

The Company issues both residential and commercial title insurance policies. Title insurance policies insure the interests of owners, and their lenders, against loss by reason of adverse claims to ownership of, or defect to, liens, encumbrances or other matters affecting such title that existed at the time a policy is issued and that was not excluded from the policy coverage. The Company also provides escrow and other services to real estate property buyers and mortgage lenders.

Title policies are issued by the Company on a direct basis, and through affiliated and non-affiliated title agents on behalf of the Company on an indirect basis. Some underwritten title companies, and other title agents, retain from 60% to 95% of the title insurance premium when they place business with the Company. The amount of retention depends on local regulations or practices and on whether the premium is all inclusive or divided between so-called “risk portion” of the premium and the so-called “work portion”, such as search, examination, and policy preparation.

LOSS EXPERIENCE

The Company reported net operating losses for 2008, 2010, 2011, and a net loss for 2008 as follows:

Year	Net Operating Gain or (Loss)	Net Income or (Loss)	Policyholders' Surplus
2008	$ (231,440,130)	$ (79,167,894)	$ 608,812,018
2009	9,349,168	218,537,998	802,125,966
2010	(30,846,183)	73,253,545	854,622,976
2011	(61,116,958)	89,746,991	828,332,847
2012	178,984,789	300,837,997	956,362,845

During the examination period the Company increased its reported surplus as regards policyholder's through capital contributions totaling $290.8 million and decreased its surplus as regards policyholder's through stockholder dividends totaling $440.7 million. The Company, and the entire title industry, had significantly diminished premium volumes in years 2008 thru 2011 compared to previous years. During 2012 premium activity increased significantly, particularly on title policy issuance on real estate mortgage loan refinancing activity.

REINSURANCE

Assumed

The Company assumes business from subsidiaries and affiliates as well as from unaffiliated companies. In the ordinary course of business, orders for large policies are often received with the applicant directing the underwriting company to cede a portion of the risk to other insurers for specific amounts. The Company is one of the nation's largest title insurers and as a result is directed to cede and assume facultative reinsurance on a regular basis. The Company also has treaty reinsurance agreements with several companies. The treaty reinsurance agreements in effect as of December 31, 2012 are listed as follows:

Subsidiaries and Affiliates:

Company	Retention
First American Title Insurance De Mexico, S.A. DE C.V.	$ 1,500,000*
First American Title Insurance Company of Louisiana	$ 350,000
First American Title of Australia	$ 100,000
First Title Insurance PLC	£ 20,000
First Canadian Title Insurance Company	$ 250,000
Ohio Bar Title Insurance Company	$ 500,000

*Mexican Pesos

Unaffiliated Companies:

Company	Retention
Attorneys' Title Guaranty Fund, Inc.	$ 700,000
Investors Title Insurance Company	$ 6,500,000
National Investors Title Insurance Company	$ 1,000,000
North American Title Company	$ 2,500,000

As of December 31, 2012, the Company assumed from affiliates policy liabilities totaling $187 billion and reinsurance premiums of $4.1 million. The Company assumed business from non-affiliates with policy liabilities totaling $5 billion and reinsurance premiums of $2.1 million. In the aggregate the assumed reinsurance liability totaled $192 billion and reinsurance premiums received totaled $6.2 million. As of December 31, 2012, the Company reported no amounts of reinsurance payable on paid and unpaid losses and loss adjustment expenses.

Ceded

The Company cedes its excess risk primarily on a facultative basis. However, the Company does cede certain commercial risks via reinsurance treaties. The following is a summary of ceded excess of loss reinsurance treaties in-force as of December 31, 2012:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Title:			
Claims-made Title Reinsurance Agreement	HCC Reinsurance Company Limited	$100 million ultimate Net loss per policy	100% of $200 million excess of $100 million retention each policy, or each reporting year, with an aggregate limit of $200 million.

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
First Title Excess of Loss Reinsurance Contract Aon Benfield – Intermediary	AXIS Specialty Limited (37.5%) Everest Re (10%) Hannover Re (15%) Validus (11.5%) XL RE Ltd. (5%) Various Lloyds of London syndicates (21%)	$20 million ultimate net loss per occurrence	100% of $30 million excess of $20 million retention each and every loss occurrence.
Second Title Excess of Loss Combined Reinsurance Aon Benfield – Intermediary	Endurance Specialty Ins. Ltd. (18%) Allianz SE (12%) Hannover Re (15%) Aspen Re (12.5%) Renaissance Re (5%) Various Lloyds of London syndicates (37.5%)	$50 million per occurrence	100% of $50 million excess of $50 million per occurrence.

As of December 31, 2012, the Company ceded business to non-affiliates with policy liabilities totaling $80.2 billion and reinsurance premiums of $10.9 million. As of December 31, 2012, the Company reported no amounts of reinsurance recoverable on paid and unpaid losses and loss adjustment expenses.

ACCOUNTS AND RECORDS

California Insurance Code (CIC) Section 735 states that the Company must inform the board members of the receipt of the examination report. The board should be informed of the report both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the Commissioner. The board must also enter that fact in the board minutes. The prior examination report as of December 31, 2007, was provided to the Company during June 2009. A review of the board minutes indicated that neither the initial formally prepared draft nor the final prior examination report were presented to the board on a timely basis. The Company subsequently provided evidence that the final prior examination report was presented to the board of directors

on October 13, 2011. It is recommended that the Company implement procedures to ensure timely compliance with CIC Section 735.

CIC Section 1200 states that an excess fund investment shall not be made unless authorized or approved by the directors or by a committee thereof. Such authorization or approval shall be entered into the minutes. A review of the board of directors and committee minutes during the period covered by this examination noted, for certain periods, no specific recording of board approval of investment transactions as required by CIC Section 1200. It is recommended that all investment transactions of the Company shall be reviewed and approved by the board as required per CIC Section 1200, and in addition specific references to facts, amounts, and the value of securities should also be included as required under CIC Section 1201.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2012

Operations and Investment Exhibit for the Year Ended December 31, 2012

Reconciliation of Surplus as Regards Policyholders from December 31, 2007 through December 31, 2012

Statement of Financial Condition
as of December 31, 2012

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 734,016,669	$	$ 734,016,669	
Preferred stocks	57,491,860		57,491,860	
Common stocks	419,056,208		419,056,208	
Mortgage loans on real estate – first liens	2,089,627		2,089,627	
Real estate:				
Properties occupied by the company	57,460,491		57,460,491	
Properties held for the production of income	50,836,366		50,836,366	
Properties held for sale	35,418,039		35,418,039	
Cash and short-term investments	264,511,968		264,511,968	
Other invested assets	353,796,158		353,796,158	
Title plants	118,981,954	18,981,954	100,000,000	
Investment income due and accrued	7,216,812		7,216,812	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	75,492,498	16,190,283	59,302,215	
Net deferred tax asset	184,048,355	136,432,391	47,615,964	
Electronic data processing equipment and software	10,080,039	10,080,039	0	
Furniture and equipment	6,998,762	6,998,762	0	
Receivables from parent, subsidiaries and affiliates	123,562,187	32,081,194	91,480,993	
Aggregate write-ins for other than invested assets	505,953,680	440,158,026	65,795,654	
Total assets	$ 3,007,011,673	$660,922,649	$ 2,346,089,024	

Liabilities, Surplus and Other Funds			
Known claims reserve		$ 119,041,179	(1)
Statutory premium reserve		893,654,249	(1)
Supplemental reserve		0	(1)
Other expenses		150,876,540	
Taxes, licenses and fees		21,848,597	
Current federal income taxes		21,789,108	
Premiums and other considerations received in advance		297,584	
Amounts withheld or retained by company for account of others		13,702,664	
Payable to parent, subsidiaries and affiliates		164,826,414	
Payable for securities		2,801,070	
Aggregate write-ins for other liabilities		888,774	
Total liabilities		1,389,726,179	
Common capital stock	$ 200,000,000		
Gross paid-in and contributed surplus	290,888,738		
Unassigned funds (surplus)	465,474,107		
Surplus as regards policyholders		956,362,845	
Total liabilities, surplus and other funds		$2,346,089,024	

Operations and Investment Exhibit
for the Year Ended December 31, 2012

Statement of Income

Underwriting Income		
Title insurance premiums earned	$ 2,825,556,912	
Escrow and settlement services	191,206,496	
Other title fees and service charges	201,657,030	
Other operating income	19,263,495	
Total operating income		$3,237,683,933
Deductions:		
Losses and loss adjustment expenses incurred	$ 231,786,512	
Operating expenses incurred	2,826,912,632	
Total underwriting deductions		3,058,699,144
Net operating gain		178,984,789
Investment Income		
Net investment income earned	$ 104,235,922	
Net realized capital gain	18,637,519	
Net investment gain		122,873,441
Other Income		
Net income before federal and foreign income taxes		301,858,230
Federal and foreign income taxes incurred		1,020,233
Net income		$ 300,837,997

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2011		$ 828,332,847
Net income	$ 300,837,997	
Change in net unrealized capital gains	66,206,493	
Change in net unrealized foreign exchange capital gain	185,836	
Change in net deferred income tax	(54,988,686)	
Change in nonadmitted assets	15,577,648	
Cumulative effect of changes in accounting principles	27,913,005	
Capital changes:		
Paid-in	531,532	
Dividends to stockholders	(218,556,134)	
Aggregate write-ins for losses in surplus	(9,677,693)	
Change in surplus as regards policyholders for the year		128,029,998
Surplus as regards policyholders, December 31, 2012		$ 956,362,845

Reconciliation of Surplus as Regards Policyholders
from December 31, 2007 through December 31, 2012

Surplus as regards policyholders, December 31, 2007 per Examination			$ 398,143,304
	Gain in Surplus	Loss in Surplus	
Net income	$ 594,377,230	$	
Net unrealized capital losses		80,134,785	
Change in net foreign exchange capital losses		3,341,077	
Change in net deferred income tax		2,407,257	
Change in nonadmitted assets	114,423,620		
Change in supplemental reserves	103,885,000		
Cumulative effect of changes in accounting principles	20,709,693		
Capital changes: Paid in	190,888,738		
Dividends to stockholders		440,759,753	
Aggregate write-ins for gains and losses in surplus	60,578,132		
Total gains and losses	$1,084,862,413	$ 526,642,872	
Net increase in surplus as regards policyholders			558,219,541
Surplus as regards policyholders, December 31, 2012, per Examination			$ 956,362,845

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Known Claims Reserve
Statutory Premium Reserve
Supplemental Reserve

Existing statutory guidance indicates that in addition to the "case reserves" carried in the known claims reserve by the Company, a "bulk reserve" should also be included to address material adverse development on case reserves. Statutory support for this position is available in relevant National Association of Insurance Commissioners (NAIC) guidance (SSAP 57, Appendix A-628 to SSAP 57, and the 2012 Annual Statement Instructions for title companies). Additionally, for Annual Statement reporting purposes, a bulk reserve should be included as applicable within Schedule P, Part 1 "summary (column 17); Part 2C, "policy year bulk reserves on known claims"; and Part 3C, "bulk reserves on known claims by year of first report". Note that the combination of the known claims reserve and the statutory premium reserve (SPR) are utilized by the actuaries when calculating the necessity of a supplemental reserve.

It is noted that the Company does not present a "bulk reserve" within its known claims reserve. However, for year 2012, and for the three subsequent quarterly financial statements, the Company has obtained a "permitted practice letter" from the California Department of Insurance (CDI), as follows:

> *"FATICO will be allowed to account for bulk reserves with IBNR instead of known claims reserves as required in SSAP 57, paragraph 8 and A-628. This allowance for title insurers is currently being exposed as a non-substantive change to SSAP 57 as long as the total known claims reserve, SPR, and supplemental reserves is not less than the actuarially determined liability (Schedule P), which it is not for FATICO."*

Based on the analyses performed by a Casualty Actuary for the CDI, the total of known claims reserve, SPR, and supplemental reserves equaled or exceeded the actuarially determined liability (Schedule P) as of December 31, 2012, thus meeting the specifications of the aforementioned permitted practice letter.

Based on the analyses performed by the examiners, the Company-stated statutory premium reserve (SPR) of $893,654,249 as of December 31, 2012 was deemed reasonable.

The Company carried no amount of "supplemental reserve" as of December 31, 2012. Based on the analyses performed by a Casualty Actuary for the CDI no supplemental reserve appeared necessary at that date.

Effective October, 10, 2013, a revision to statutory accounting guidance within the NAIC Accounting Practices and Procedures Manual was adopted to indicate that a bulk reserve is not required to be used by an insurer as long as the total of the known claims reserve, Statutory Premium Reserve/Unearned Premium Reserve (SPR/UPR), and the supplemental reserve is not less than the actuarially determined liability for the sum of known claims, IBNR claims, and loss adjustment expenses, taking into account the projected development of those reserves.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control: Management Agreements – Cost Allocation Agreement (Page 10): It is recommended that the Company prepare a replacement cost allocation agreement with its new parent, First American Financial Corporation (FAFC), and submit it to the California Department of Insurance (CDI) for approval pursuant to the California Insurance Code (CIC) Section 1215.5(b)(4). It was also recommended in the previous examination report that the cost allocation agreement be revised. Subsequently on October 1, 2013, the Company submitted an amended Cost Allocation Agreement to the CDI legal staff. CDI approval is pending.

Management and Control: Management Agreements – Underwriting Agreement (Page12): As a result of a material change to the terms of the 1997 underwriting agreement with First American Title Company (FATCO), covering California-only business, it is recommended that the Company submit the amended agreement to the CDI for approval pursuant to CIC Section 1215.5(b)(4). Additionally, it is recommended that the Company prepare and submit an additional underwriting agreement with FATCO covering the business "outside of California" pursuant to CIC Section 1215.5(b)(4).

Management and Control: Management Agreements – Title Plant Maintenance Service (Page 12): It is recommended that the Company prepare and submit either the master license agreement or a service agreement, with Data Trace Information Services, LLC (Data Trace), and First American Data Tree LLC (Data Tree), to the CDI for approval pursuant to CIC Section 1215.5(b)(4). In addition, it is recommended that a services agreement be submitted to the CDI covering the services that the Company in turn provides to Data Trace and Data Tree.

Management and Control: Management Agreements – Services Arrangement – Title Searches (Page 13): It is recommended that the Company prepare and submit title search services agreements with its India-based and Philippines-based affiliates to the CDI for approval pursuant to CIC Section 1215.5(b) (4).

Previous Report of Examination

Summary of Significant Findings (Page 2): The previous examination noted a reduction of the Company's surplus as regards policyholders due to the decrease in the admitted value of the Company's common stock in its subsidiary, United General Title Insurance Company (UGTIC). Subsequently, the Company entered into an "instrument of transfer and assumption agreement" effective September 30, 2008, in which 100% of the business, assets, and liabilities associated with UGTIC were assumed by the Company.

Management and Control – Management Agreements – Cost Allocation Agreement (Page 10): The agreement did not state a specific date as required by the Statement of Statutory Accounting Principles (SSAP) No. 96. In addition, many affiliates of the Company who were not party to the agreement were running their transactions through the Company's inter-company accounts. It was recommended that the Company revise this Cost Allocation Agreement and submit it to the CDI for approval. A revised Cost Allocation Agreement with its new parent First American Financial Corporation (FAFC) is pending CDI approval. During December 2012, the Company did enter into an Affiliated Companies Service Agreement with certain affiliates other than FAFC which was approved by the CDI.

Accounts and Records (Page 16): It was recommended that the Company maintain documentation to support all financial statement accounts. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail from the Annual Statements to individual records. The Company subsequently has made satisfactory improvements in this area.

Accounts and Records – Receivable from Parent (Page 16): It was recommended that the Company prepare and submit an agreement, which includes all affiliates that the Company has dealings with, to the CDI in order to conform with CIC Section 1215.5(b)(4). It was also recommended that in the future the Company seek prior approval from the CDI for extraordinary transactions as defined by CIC Section 1215.5. As of the current examination date the Company has submitted certain, but not all, specified agreements to CDI for approval. The Company states that it has subsequently established enhanced procedures to identify all extraordinary affiliated transactions to ensure prior approval of CDI is sought on all extraordinary affiliated transactions.

Accounts and Records – Escrow Accounts (Page 17): It was recommended that the Company implement procedures to ensure that escrow balances are properly supported and that the records are easily attainable for review. The Company has complied with the recommendation.

Accounts and Records – Custodial Agreement (Page 17): It was recommended that the Company comply with CIC Section 1104.9 by utilizing a qualified custodian for its securities. The Company has complied with the recommendation.

Comments on Financial Statement Items – Common Stocks (Page 23): It was recommended that the Company comply with CIC Sections 1198, 1215.5(b), and 1215(b)(1) and file material transactions with the CDI. The Company appears to have complied with the recommendation.

Comments on Financial Statement Items – Mortgage Loans on Real Estate (Page 23): It was recommended that the Company comply with Statement of Statutory Accounting Principles (SSAP) No. 37, paragraph 16 and record a valuation allowance with a corresponding unrealized loss where applicable. The Company has complied with the recommendation.

Comments on Financial Statement Items – Real Estate (Page 24): It was recommended that the Company comply with SSAP No. 40 and obtain appraisals on its real estate holdings at least every five years. On February 2, 2011, the Company obtained new market value evaluations for its real properties.

Comments on Financial Statement Items – Receivables from Parent, Subsidiaries and Affiliates (Page 24): It was recommended that the Company settle balances with its parent and affiliates on a timely basis. The Company appears to be currently settling balances with its subsidiaries on a timely basis. Balances that are not settled timely with parent and certain affiliates appear to be reasonably not-admitted per guidance.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

_____/S/_____
Gary McMurray, CFE
Examiner-In-Charge
Contract Insurance Examiner
Department of Insurance
State of California