Athayde Marques Miguel
Form 5
February 14, 2008

FORM 5

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).
Form 3 Holdings Reported
Form 4 Transactions Reported

ANNUAL STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0362
Expires:	January 31, 2005
Estimated average burden hours per response...	1.0

1. Name and Address of Reporting Person *
Athayde Marques Miguel

(Last) (First) (Middle)

C/O NYSE EURONEXT,Â 11 WALL STREET

(Street)

NEW YORK,Â NYÂ 10005

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
NYSE Euronext [NYX]

3. Statement for Issuer's Fiscal Year Ended (Month/Day/Year)
12/31/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Management Committee Member

6. Individual or Joint/Group Reporting

(check applicable line)

_X_ Form Filed by One Reporting Person
___ Form Filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned at end of Issuer's Fiscal Year (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
				Amount	(A) or (D)	Price			
Common Stock, par value $0.01 per share	10/24/2007(1)	Â	A4(1)	10,105	A	$ 0	10,105	D	Â
Common Stock, par value $0.01 per share	10/24/2007(2)	Â	A4(2)	4,757	A	$ 0	14,862	D	Â

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 2270 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. of D Se Be O En Is Fi (I
					(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Athayde Marques Miguel C/O NYSE EURONEXT 11 WALL STREET NEW YORK,Â NYÂ 10005	Â	Â	Â Management Committee Member	Â

Signatures

/s/ C. M. Courtney under POA dated March 28, 2007	02/14/2008
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Represents the acquisition of shares of common stock of the Issuer resulting from the vesting of performance shares awarded to the Reporting Person under the 2005 Euronext Executive Incentive Plan. On the Transaction Date, the Issuer's Human Resources and Compensation Committee determined the number of shares to be vested. Shares were subject to transfer restrictions through December 31, 2007 and were delivered on February 6, 2008.

(2) Represents the acquisition of shares of common stock of the Issuer resulting from the vesting of performance shares awarded to the Reporting Person under the 2006 Euronext Executive Incentive Plan. On the Transaction Date, the Issuer's Human Resources and Compensation Committee determined the number of shares to be vested. Shares are subject and the Reporting Person's continued employment with the issuer through December 31 2008, and are expected to be delivered after the date of announcement of the Issuer?s earnings for 2008, which announcement is expected to take place in February, 2009.

Note: File three copies of this Form, one of which must be manually signed. If space provided is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ="width:46%;">

Claim losses

1,018,365

275,306

271,890

156,033

315,136

Pension and supplemental benefit plans

496,187

Explanation of Responses:

41,639

65,422

37,540

351,586

$

3,924,754

$

2,111,298

$

506,935

Explanation of Responses:

$

282,582

$

1,023,939

The timing of claim payments is estimated and is not set contractually. Nonetheless, based on historical claims experience, the Company anticipates the above payment patterns. Changes in future claim settlement patterns, judicial decisions, legislation, economic conditions and other factors could affect the timing and amount of actual claim payments. The timing and amount of payments in connection with pension and supplemental benefit plans are based on the Company's current estimate and require the use of significant assumptions. Changes in significant assumptions could affect the amount and timing of pension and supplemental benefit plan payments. See Note 14 Employee Benefit Plans to the consolidated financial statements for additional discussion of management's significant assumptions. The Company is not able to reasonably estimate the timing of payments, or the amount by which the liability for the Company's uncertain tax positions will increase or decrease over time; therefore the liability of $47.8 million has not been included in the contractual obligations table. See Note 12 Income Taxes to the consolidated financial statements for additional discussion of the Company's liability for uncertain tax positions.

Off-balance sheet arrangements. The Company administers escrow deposits and trust assets as a service to its customers. Escrow deposits totaled $4.7 billion and $4.2 billion at December 31, 2013 and 2012, respectively, of which $1.6 billion and $1.2 billion, respectively, were held at the Company's federal savings bank subsidiary, First American Trust, FSB. The escrow deposits held at First American Trust, FSB, are included in the accompanying consolidated balance sheets in cash and cash equivalents and debt and equity securities, with offsetting liabilities included in deposits. The remaining escrow deposits were held at third-party financial institutions.

Trust assets totaled $3.0 billion and $2.8 billion at December 31, 2013 and 2012, respectively, and were held or managed by First American Trust, FSB. Escrow deposits held at third-party financial institutions and trust assets are not the Company's assets under U.S. generally accepted accounting principles and, therefore, are not included in the accompanying consolidated balance sheets. However, the Company could be held contingently liable for the disposition of these assets.

In conducting its operations, the Company often holds customers' assets in escrow, pending completion of real estate transactions. As a result of holding these customers' assets in escrow, the Company has ongoing programs for realizing economic benefits, including investment programs, borrowing agreements, and vendor services arrangements with various financial institutions. The effects of these programs are included in the consolidated financial statements as income or a reduction in expense, as appropriate, based on the nature of the arrangement and benefit received.

The Company facilitates tax-deferred property exchanges for customers pursuant to Section 1031 of the Internal Revenue Code and tax-deferred reverse exchanges pursuant to Revenue Procedure 2000-37. As a facilitator and intermediary, the Company holds the proceeds from sales transactions and takes temporary title to property identified by the customer to be acquired with such proceeds. Upon the completion of such exchange, the identified property is transferred to the customer or, if the exchange does not take place, an amount equal to the sales proceeds or, in the case of a reverse exchange, title to the property held by the Company is transferred to the customer. Like-kind exchange funds held by the Company totaled $1.4 billion at December 31, 2013 and 2012. The like-kind exchange deposits were held at third-party financial institutions and, due to the structure utilized to facilitate these transactions, the proceeds and property are not considered assets of the Company and, therefore, are not included in the accompanying consolidated balance sheets. All such amounts are placed in deposit accounts insured, up to applicable limits, by the Federal Deposit Insurance Corporation. The Company could be held contingently liable to the customer for the transfers of property, disbursements of proceeds and the return on the proceeds.

At December 31, 2013 and 2012, the Company was contingently liable for guarantees of indebtedness owed by affiliates and third parties to banks and others totaling $14.7 million and $23.2 million, respectively. The guarantee arrangements relate to promissory notes and other contracts, and contingently require the Company to make payments to the guaranteed party based on the failure of debtors to make scheduled payments according to the terms of the notes and contracts. The Company's maximum potential amount of future payments under these guarantees totaled $14.7 million and $23.2 million at December 31, 2013 and 2012, respectively, and is limited in duration to the terms of the underlying indebtedness. The Company has not incurred any costs as a result of these guarantees and has not recorded a liability on its consolidated balance sheets related to these guarantees at December 31, 2013 and 2012.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk
Interest Rate Risk

The Company has interest rate risk associated with certain financial instruments. The Company monitors its risk associated with fluctuations in interest rates and makes investment decisions to manage accordingly. The Company does not currently use derivative financial instruments in any material amount to hedge these risks. The table below provides information about certain assets and liabilities as of December 31, 2013 that are sensitive to changes in interest rates and presents cash flows and the related weighted average interest rates by expected maturity dates.

	2014	2015	2016	2017	2018	Thereafter	Total	Fair Value
	(in thousands, except percentages)							
Assets								
Deposits with banks								
Book value	$23,492						$23,492	$23,601
Average interest rate	1.39 %							
Debt securities								
Amortized cost	$79,268	150,281	219,161	225,498	213,221	1,961,165	$2,848,594	$2,819,817
Average interest rate	3.48 %	3.45 %	3.23 %	3.09 %	3.75 %	2.67 %		
Notes receivable								
Book value	$5,315	1,235	1,553	741	527	3,755	$13,126	$9,953
Average interest rate	4.16 %	4.24 %	4.56 %	4.90 %	4.96 %	6.42 %		
Loans receivable								
Book value	$1,005	4,524	1,592	6,017	9,297	55,597	$78,032	$73,397
Average interest rate	5.58 %	6.00 %	6.59 %	6.98 %	6.02 %	6.03 %		
Liabilities								
Interest bearing escrow deposits								
Book value	$1,376,921						$1,376,921	$1,376,921
Average interest rate	0.13 %							
Variable rate deposits								
Book value	$22,015						$22,015	$22,015
Average interest rate	0.50 %							
Fixed rate deposits								
Book value	$19,813	5,648	1,135				$26,596	$26,802
Average interest rate	0.96 %	2.24 %	1.94 %					
Notes and contracts payable								
Book value	$13,667	15,020	3,982	5,190	3,429	268,997	$310,285	$301,007
Average interest rate	4.34 %	4.35 %	4.41 %	4.39 %	4.38 %	4.37 %		

Equity Price Risk

The Company is also subject to equity price risk related to its equity securities portfolio. The Company manages its equity price risk through an investment committee made up of certain senior executives which is advised by an experienced investment management staff.

Foreign Currency Risk

Although the Company has exchange rate risk for its operations in certain foreign countries, this risk is not material to the Company’s financial condition or results of operations. The Company does not hedge its foreign exchange risk.

Credit Risk

The Company's corporate, municipal, foreign, non-agency mortgage-backed and, to a lesser extent, its agency securities are subject to credit risk. The Company manages its credit risk through actively monitoring issuer financial reports, credit spreads, security pricing and credit rating migration. Further, diversification and concentration limits by asset type and per issuer are established and monitored by the Company's investment committee.

The Company's non-agency mortgage-backed securities credit risk is analyzed by monitoring servicer reports and through utilization of sophisticated cash flow models to measure the default characteristics of the underlying collateral pools.

The Company holds a large concentration in U.S. government agency securities, including agency mortgage-backed securities. In the event of discontinued U.S. government support of its federal agencies, material credit risk could be observed in the portfolio. The Company views that scenario as unlikely but possible. The federal government currently is considering various alternatives to reform the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). The nature and timing of the reforms is unknown, however, the federal government reiterated its commitment to ensuring that Fannie Mae and Freddie Mac have sufficient capital to perform under any guarantees issued now or in the future and the ability to meet any of their debt obligations.

The Company's overall investment securities portfolio maintains an average credit quality of AA.

Item 8. Financial Statements and Supplementary Data

Separate financial statements for subsidiaries not consolidated and 50% or less owned persons accounted for by the equity method have been omitted because they would not constitute a significant subsidiary.

INDEX

Financial statement schedules not listed are either omitted because they are not applicable or the required information is shown in the consolidated financial statements or in the notes thereto.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

First American Financial Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of First American Financial Corporation and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Los Angeles, California

February 25, 2014

50

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except par values)

	December 31, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$834,837	$670,529
Accounts and accrued income receivable, less allowances of $31,831 and $30,917	236,895	259,779
Income taxes receivable	26,527	14,093
Investments:		
Deposits with banks	23,492	27,875
Debt securities, includes pledged securities of $123,956 and $105,849	2,819,817	2,651,881
Equity securities	358,043	197,920
Other long-term investments	183,976	192,563
	3,385,328	3,070,239
Loans receivable, net	73,755	107,352
Property and equipment, net	361,348	343,450
Title plants and other indexes	523,879	521,741
Goodwill	846,026	845,857
Other intangible assets, net	46,347	57,095
Other assets	185,658	160,712
	$6,520,600	$6,050,847
LIABILITIES AND EQUITY		
Deposits	$1,692,932	$1,411,193
Accounts payable and accrued liabilities:		
Accounts payable	26,378	27,854
Personnel costs	183,344	176,478
Pension costs and other retirement plans	388,993	483,272
Other	197,097	186,409
	795,812	874,013
Deferred revenue	192,184	170,663
Reserve for known and incurred but not reported claims	1,018,365	976,462
Deferred income taxes	54,779	36,987
Notes and contracts payable	310,285	229,760
	4,064,357	3,699,078
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred stock, $0.00001 par value, Authorized—500 shares; Outstanding—none	—	—
Common stock, $0.00001 par value:		
Authorized—300,000 shares; Outstanding—105,900 shares and 107,239 shares as of December 31, 2013 and 2012, respectively	1	1
Additional paid-in capital	2,077,828	2,111,605
Retained earnings	520,764	387,015
Accumulated other comprehensive loss	(145,544)	(150,556)

Total stockholders' equity	2,453,049	2,348,065
Noncontrolling interests	3,194	3,704
Total equity	2,456,243	2,351,769
	$6,520,600	$6,050,847

See Notes to Consolidated Financial Statements

Explanation of Responses:

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	Year Ended December 31,		
	2013	2012	2011
Revenues:			
Direct premiums and escrow fees	$2,184,464	$2,041,740	$1,634,177
Agent premiums	2,044,862	1,709,905	1,491,943
Information and other	627,645	645,023	621,483
Investment income	89,895	81,031	76,771
Net realized investment gains	9,211	67,686	5,268
Net other-than-temporary impairment (“OTTI”) losses recognized in earnings:			
Total OTTI losses on debt securities	—	(1,757)	(12,748)
Portion of OTTI losses on debt securities recognized in other comprehensive loss	—	(1,807)	3,680
	—	(3,564)	(9,068)
	4,956,077	4,541,821	3,820,574
Expenses:			
Personnel costs	1,445,582	1,334,866	1,178,368
Premiums retained by agents	1,636,694	1,370,193	1,195,282
Other operating expenses	885,805	836,319	761,878
Provision for policy losses and other claims	530,356	397,717	420,136
Depreciation and amortization	74,916	74,950	76,889
Premium taxes	56,715	51,304	45,663
Interest	15,301	9,066	12,065
	4,645,369	4,074,415	3,690,281
Income before income taxes	310,708	467,406	130,293
Income taxes	123,644	165,678	51,714
Net income	187,064	301,728	78,579
Less: Net income attributable to noncontrolling interests	697	687	303
Net income attributable to the Company	$186,367	$301,041	$78,276
Net income per share attributable to the Company’s stockholders:			
Basic	$1.74	$2.83	$0.74
Diluted	$1.71	$2.77	$0.73
Cash dividends declared per share	$0.48	$0.36	$0.24
Weighted-average common shares outstanding:			
Basic	106,991	106,307	105,197
Diluted	109,102	108,542	106,914

See Notes to Consolidated Financial Statements

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Year Ended December 31,		
	2013	2012	2011
Net income	$187,064	$301,728	$78,579
Other comprehensive income (loss), net of tax:			
Unrealized (loss) gain on securities	(32,992)	31,445	(12,316)
Unrealized gain on securities for which credit-related portion was recognized in earnings	2,327	3,902	2,144
Foreign currency translation adjustment	(13,650)	5,131	(6,167)
Pension benefit adjustment	49,324	(13,571)	(12,034)
Total other comprehensive income (loss), net of tax	5,009	26,907	(28,373)
Comprehensive income	192,073	328,635	50,206
Less: Comprehensive income attributable to noncontrolling interests	694	691	233
Comprehensive income attributable to the Company	$191,379	$327,944	$49,973

See Notes to Consolidated Financial Statements

53

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF EQUITY

(in thousands)

	First American Financial Corporation Stockholders							
	Shares	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total stockholders' equity	Noncontrolling interests	Total
Balance at December 31, 2010	104,457	$ 1	$ 2,057,098	$ 72,074	$ (149,156)	$ 1,980,017	$ 13,704	$ 1,993,721
Net income for 2011	—	—	—	78,276	—	78,276	303	78,579
Contribution from TFAC as a result of Separation	—	—	5,164	—	—	5,164	—	5,164
Dividends on common shares	—	—	—	(24,784)	—	(24,784)	—	(24,784)
Purchase of Company shares	(204)	—	(2,502)	—	—	(2,502)	—	(2,502)
Shares issued in connection with share-based compensation plans	1,157	—	2,958	(750)	—	2,208	—	2,208
Share-based compensation expense	—	—	14,981	—	—	14,981	—	14,981
Net activity related to noncontrolling interests	—	—	3,543	—	—	3,543	(7,598)	(4,055)
Other comprehensive income (Note19)	—	—	—	—	(28,303)	(28,303)	(70)	(28,373)
Balance at December 31, 2011	105,410	1	2,081,242	124,816	(177,459)	2,028,600	6,339	2,034,939
Net income for 2012	—	—	—	301,041	—	301,041	687	301,728
Dividends on common shares	—	—	—	(37,612)	—	(37,612)	—	(37,612)
Shares issued in connection with share-based compensation plans	1,829	—	16,270	(1,230)	—	15,040	—	15,040
Share-based compensation	—	—	14,839	—	—	14,839	—	14,839

expense								
Net activity related to noncontrolling interests	—	—	(746)	—	—	(746)	(3,326)	(4,072)
Other comprehensive income (Note 19)	—	—	—	—	26,903	26,903	4	26,907
Balance at December 31, 2012	107,239	1	2,111,605	387,015	(150,556)	2,348,065	3,704	2,351,769
Net income for 2013	—	—	—	186,367	—	186,367	697	187,064
Dividends on common shares	—	—	—	(51,324)	—	(51,324)	—	(51,324)
Purchase of Company shares	(2,951)	—	(64,606)	—	—	(64,606)	—	(64,606)
Shares issued in connection with share-based compensation plans	1,612	—	9,232	(1,294)	—	7,938	—	7,938
Share-based compensation expense	—	—	22,301	—	—	22,301	—	22,301
Net activity related to noncontrolling interests	—	—	(704)	—	—	(704)	(1,204)	(1,908)
Other comprehensive income (Note 19)	—	—	—	—	5,012	5,012	(3)	5,009
Balance at December 31, 2013	105,900	$ 1	$2,077,828	$520,764	$(145,544)	$2,453,049	$ 3,194	$2,456,243

See Notes to Consolidated Financial Statements

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$187,064	$301,728	$78,579
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for policy losses and other claims	530,356	397,717	420,136
Depreciation and amortization	74,916	74,950	76,889
Amortization of premiums and accretion of discounts on securities, net	26,782	17,264	11,017
Excess tax benefits from share-based compensation	(6,202)	(2,372)	(1,145)
Net realized investment gains	(9,211)	(67,686)	(5,268)
Net OTTI losses recognized in earnings	—	3,564	9,068
Share-based compensation	22,301	14,839	14,981
Equity in earnings of affiliates, net	(5,316)	(6,514)	(2,717)
Dividends from equity method investments	11,552	11,585	11,991
Changes in assets and liabilities excluding effects of acquisitions and noncash transactions:			
Claims paid, including assets acquired, net of recoveries	(479,310)	(445,986)	(503,434)
Net change in income tax accounts	2,589	64,486	21,856
Decrease (increase) in accounts and accrued income receivable	23,645	(29,398)	5,367
Increase (decrease) in accounts payable and accrued liabilities	5,318	83,979	(13,478)
Increase in deferred revenue	20,102	14,844	10,907
Other, net	(26,114)	(3,325)	1,925
Cash provided by operating activities	378,472	429,675	136,674
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net cash effect of acquisitions/dispositions	(5,837)	(32,476)	(2,706)
Net decrease in deposits with banks	4,747	2,522	16,223
Purchases of debt and equity securities	(1,532,710)	(1,796,314)	(1,005,804)
Proceeds from sales of debt and equity securities	621,255	954,626	672,095
Proceeds from maturities of debt securities	488,684	491,674	322,009
Net change in other long-term investments	6,443	6,591	3,860
Proceeds from notes receivable from CoreLogic	—	—	18,787
Origination and purchases of loans and participations	—	—	(13,534)
Net decrease in loans receivable	33,597	31,839	35,869
Capital expenditures	(87,142)	(83,892)	(69,797)
Proceeds from sale of property and equipment	5,807	7,767	9,345
Cash used for investing activities	(465,156)	(417,663)	(13,653)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	281,739	317,957	(389,320)
Proceeds from issuance of debt	249,144	440,065	24,185
Repayment of debt	(168,205)	(510,544)	(23,117)

Net activity related to noncontrolling interests	(1,894)	(4,094)	(4,491)
Excess tax benefits from share-based compensation	6,202	2,372	1,145
Net proceeds in connection with share-based compensation plans	1,736	12,668	1,152
Purchase of Company shares	(64,606)	—	(2,502)
Cash dividends	(51,324)	(44,705)	(25,216)
Cash provided by (used for) financing activities	252,792	213,719	(418,164)
Effect of exchange rate changes on cash	(1,800)	105	(2,854)
Net increase (decrease) in cash and cash equivalents	164,308	225,836	(297,997)
Cash and cash equivalents—Beginning of year	670,529	444,693	742,690
Cash and cash equivalents—End of year	$834,837	$670,529	$444,693
SUPPLEMENTAL INFORMATION:			
Cash paid during the year for:			
Interest	$10,827	$8,909	$12,631
Premium taxes	$54,629	$45,375	$38,136
Income taxes, less refunds of $1,329, $32,269 and $4,059	$120,313	$87,324	$23,862
Noncash investing and financing activities:			
Net noncash contribution from TFAC as a result of Separation	$—	$—	$5,164

See Notes to Consolidated Financial Statements

55

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Description of the Company:

First American Financial Corporation (the “Company”), through its subsidiaries, is engaged in the business of providing financial services. The Company consists of the following reportable segments and a corporate function:

- The Company’s title insurance and services segment issues title insurance policies on residential and commercial property in the United States and offers similar or related products and services internationally. This segment also provides closing and/or escrow services; accommodates tax-deferred exchanges of real estate; provides products, services and solutions involving the use of real property related data designed to mitigate risk or otherwise facilitate real estate transactions; maintains, manages and provides access to title plant records and images; and provides banking, trust and investment advisory services. The Company, through its principal title insurance subsidiary and such subsidiary’s affiliates, transacts its title insurance business through a network of direct operations and agents. Through this network, the Company issues policies in the 49 states that permit the issuance of title insurance policies and the District of Columbia. The Company also offers title insurance and other insurance and guarantee products, as well as related settlement services in foreign countries, including Canada, the United Kingdom, Australia and various other established and emerging markets.
- The Company’s specialty insurance segment issues property and casualty insurance policies and sells home warranty products. The property and casualty insurance business provides insurance coverage to residential homeowners and renters for liability losses and typical hazards such as fire, theft, vandalism and other types of property damage. This business is licensed to issue policies in all 50 states and the District of Columbia and actively issues policies in 46 states. In certain markets it also offers preferred risk auto insurance to better compete with other carriers offering bundled home and auto insurance. The home warranty business provides residential service contracts that cover residential systems, such as heating and air conditioning systems, and certain appliances against failures that occur as the result of normal usage during the coverage period. This business currently operates in 39 states and the District of Columbia.

The corporate division consists of certain financing facilities as well as the corporate services that support the Company’s business operations.

Spin-off

The Company became a publicly traded company following its spin-off from its prior parent, The First American Corporation (“TFAC”) on June 1, 2010 (the “Separation”). On that date, TFAC distributed all of the Company’s outstanding shares to the record date shareholders of TFAC on a one-for-one basis (the “Distribution”). After the Distribution, the Company owns TFAC’s financial services businesses and TFAC, which reincorporated and assumed the name CoreLogic, Inc. (“CoreLogic”), continued to own its information solutions businesses.

Significant Accounting Policies:

Principles of Consolidation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and reflect the consolidated operations of the Company. The consolidated financial statements include the accounts of

First American Financial Corporation and all controlled subsidiaries. All significant intercompany transactions and balances have been eliminated. Investments in which the Company exercises significant influence, but does not control and is not the primary beneficiary, are accounted for using the equity method. Investments in which the Company does not exercise significant influence over the investee are accounted for under the cost method.

56

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Reclassifications and revisions

Certain 2011 and 2012 amounts have been reclassified to conform to the 2013 presentation.

The Company has revised its December 31, 2012 consolidated balance sheet and consolidated statements of cash flows for the years ended December 31, 2012 and 2011, for an error which resulted in an adjustment between cash and cash equivalents and deposits with banks. These adjustments are not considered material, individually or in the aggregate, to the previously issued consolidated financial statements. The table below illustrates the effects of these adjustments on the Company's consolidated financial statements for those line items affected.

	As previously filed	As revised	Difference
	(in thousands)		
Year Ended December 31, 2012			
Consolidated Balance Sheet			
Cash and cash equivalents	$ 627,208	$ 670,529	$ 43,321
Deposits with banks	$ 71,196	$ 27,875	$ (43,321)
Consolidated Statement of Cash Flows			
Net (increase) decrease in deposits with banks	$ (14,405)	$ 2,522	$ 16,927
Cash used for investing activities	$ (434,590)	$ (417,663)	$ 16,927
Year Ended December 31, 2011			
Consolidated Statement of Cash Flows			
Net decrease in deposits with banks	$ 3,773	$ 16,223	$ 12,450
Cash used for investing activities	$ (26,103)	$ (13,653)	$ 12,450

Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the statements. Actual results could differ from the estimates and assumptions used.

Cash and cash equivalents

The Company considers cash equivalents to be all short-term investments that have an initial maturity of 90 days or less and are not restricted for statutory deposit or premium reserve requirements.

Accounts and accrued income receivable

Accounts and accrued income receivable are generally due within thirty days and are recorded net of an allowance for doubtful accounts. We consider accounts outstanding longer than the contractual payment terms as past due. We determine our allowance by considering a number of factors, including the length of time trade accounts receivable are past due, previous loss history, a specific customer's ability to pay its obligations to us, and the condition of the general economy and industry as a whole. Amounts are charged off in the period they are deemed to be uncollectible.

Investments

Deposits with banks are short-term investments with initial maturities of generally more than 90 days.

Debt securities are carried at fair value and consist primarily of investments in obligations of the United States Treasury, various corporations, certain state and political subdivisions and mortgage-backed securities.

57

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company maintains investments in debt securities in accordance with certain statutory requirements for the funding of statutory premium reserves and state deposits. At December 31, 2013 and 2012, the fair value of such investments totaled $124.0 million and $105.8 million, respectively. See Note 2 Statutory Restrictions on Investments and Stockholders' Equity to the consolidated financial statements for additional discussion of the Company's statutory restrictions.

Equity securities are carried at fair value and consist primarily of investments in exchange traded funds, mutual funds and marketable common and preferred stocks of corporate entities.

The Company classifies its publicly traded debt and equity securities as available-for-sale with unrealized gains or losses classified as a component of accumulated other comprehensive loss. See Note 3 Debt and Equity Securities to the consolidated financial statements for additional discussion of the Company's accounting policies pertaining to its debt and equity securities, including other-than-temporary impairment and fair value measurement.

Other long-term investments consist primarily of investments in affiliates, which are accounted for under either the equity method or the cost method of accounting, investments in real estate and notes receivable. For each of the years ended December 31, 2013 and 2012, the Company recognized $7.8 million of impairment losses on investments in affiliates. For the year ended December 31, 2011, the Company recognized $8.6 million of impairment losses on other long-term investments, including $6.3 million related to investments in affiliates and $2.3 million related to notes receivable. In making the determination as to whether an individual investment in affiliate was impaired, the Company assessed the then-current and expected financial condition of each relevant entity, including, but not limited to, the anticipated ability of the entity to make its contractually required payments to the Company (with respect to debt obligations to us), the results of valuation work performed with respect to the entity, the entity's anticipated ability to generate sufficient cash flows and the market conditions in the industry in which the entity was operating.

Loss reserves are established for notes receivable based upon an estimate of probable losses for the individual notes. A loss reserve is established on an individual note when it is deemed probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the note. The loss reserve is based upon the Company's assessment of the borrower's overall financial condition, resources and payment record; and, if appropriate, the realizable value of any collateral. These estimates consider all available evidence including the expected future cash flows, estimated fair value of collateral on secured notes, general economic conditions and trends, and other relevant factors, as appropriate. Notes are placed on non-accrual status when management determines that the collectibility of contractual amounts is not reasonably assured.

Loans receivable

The performance of the Company's loan portfolio is evaluated on an ongoing basis by management. Loans receivable are impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans receivable are measured at the present value of expected future cash flows discounted at the loan's effective interest rate. As a practical expedient, the loan may be valued based on its observable market price or the fair value of the collateral, if the loan is collateral-dependent. No indications of material impairment to loans receivable were identified during the three-year period ended December 31, 2013.

Loans, including impaired loans, are generally classified as non-accrual if they miss more than three contractual payments, which usually represent past due between 60 to 90 days or more. The Company's general policy is to reverse from income previously accrued but unpaid interest. While a loan is classified under non-accrual status and the future collectability of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to principal outstanding. Income on such loans is subsequently recognized only to the extent that cash is received and future collection of principal is probable. Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within an acceptable period of time. Interest income on non-accrual loans that would have been recognized during the years ended December 31, 2013, 2012 and 2011, if all of such loans had been current in accordance with their original terms, totaled $134 thousand, $138 thousand and $163 thousand, respectively.

The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. Loan losses are charged to, and recoveries are credited to, the allowance for loan losses. The provision for loan losses is determined after considering various factors, such as loan loss experience, maturity of the portfolio, size of the portfolio, borrower credit

58

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

history, the existing allowance for loan losses, current charges and recoveries to the allowance for loan losses, the overall quality of the loan portfolio, and current economic conditions, as determined by management, regulatory agencies and independent credit review specialists. While many of these factors are essentially a matter of judgment and may not be reduced to a mathematical formula, the Company believes that, in light of the collateral securing its loan portfolio, the current allowance for loan losses is an adequate allowance against probable losses incurred as of December 31, 2013.

The adequacy of the allowance for loan losses is based on formula allocations and specific allocations. Formula allocations are made on a percentage basis, which is dependent on the underlying collateral, the type of loan and general economic conditions. Specific allocations are made as problem or potential problem loans are identified and are based upon an evaluation by management of the status of such loans. Specific allocations may be revised from time to time as the status of problem or potential problem loans changes.

Property and equipment

Property and equipment includes computer software acquired or developed for internal use and for use with the Company’s products. Software development costs, which include capitalized interest costs and certain payroll-related costs of employees directly associated with developing software, in addition to incremental payments to third parties, are capitalized from the time technological feasibility is established until the software is ready for use.

Depreciation on buildings and on furniture and equipment is computed using the straight-line method over estimated useful lives of 5 to 40 years and 1 to 15 years, respectively. Capitalized software costs are amortized using the straight-line method over estimated useful lives of 1 to 15 years. Leasehold improvements are amortized over useful lives that are consistent with the lease term.

Title plants and other indexes

Title plants and other indexes includes title plants of $523.1 million and capitalized real estate data, net of $0.8 million at December 31, 2013 and title plants of $520.7 million and capitalized real estate data, net of $1.0 million at December 31, 2012. Title plants are carried at original cost, with the costs of daily maintenance (updating) charged to expense as incurred. Because properly maintained title plants have indefinite lives and do not diminish in value with the passage of time, no provision has been made for depreciation or amortization. The Company analyzes its title plants at least annually for impairment. This analysis includes, but is not limited to, the effects of obsolescence, duplication, demand and other economic factors. Capitalized real estate data is amortized using the straight-line method over estimated useful lives of 3 to 15 years.

Goodwill

The Company is required to perform an annual goodwill impairment assessment for each reporting unit. The Company’s four reporting units are title insurance, home warranty, property and casualty insurance and trust and other services. The Company has elected to perform this annual assessment in the fourth quarter of each fiscal year or sooner if circumstances indicate possible impairment. Based on current guidance, the Company has the option to perform a qualitative assessment to determine if the fair value is more likely than not (i.e. a likelihood of greater than

50%) less than the carrying amount as a basis for determining whether it is necessary to perform a quantitative impairment test, or may choose to forego the qualitative assessment and perform the quantitative impairment test. The qualitative factors considered in this assessment may include macroeconomic conditions, industry and market considerations, overall financial performance as well as other relevant events and circumstances as determined by the Company. The Company evaluates the weight of each factor to determine whether it is more likely than not that impairment may exist. If the results of the qualitative assessment indicate the more likely than not threshold was not met, the Company may choose not to perform the quantitative impairment test. If, however, the more likely than not threshold is met, the Company performs the quantitative test as required and discussed below.

Management's quantitative impairment testing process includes two steps. The first step ("Step 1") compares the fair value of each reporting unit to its carrying amount. The fair value of each reporting unit is determined by using discounted cash flow analysis and market approach valuations. If the fair value of the reporting unit exceeds its carrying amount, the goodwill is not considered impaired and no additional analysis is required. However, if the carrying amount is greater than the fair value, a second step ("Step 2") must be completed to determine if the fair value of the goodwill exceeds the carrying amount of goodwill.

59

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Step 2 involves calculating an implied fair value of goodwill for each reporting unit for which Step 1 indicated impairment. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit, as determined in Step 1, over the aggregate estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment loss is recorded for the excess. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

The quantitative impairment test for goodwill utilizes a variety of valuation techniques, all of which require the Company to make estimates and judgments. Fair value is determined by employing an expected present value technique, which utilizes multiple cash flow scenarios that reflect a range of possible outcomes and an appropriate discount rate. The use of comparative market multiples (the “market approach”) compares the reporting unit to other comparable companies (if such comparables are present in the marketplace) based on valuation multiples to arrive at a fair value. The Company also uses certain of these valuation techniques in accounting for business combinations, primarily in the determination of the fair value of acquired assets and liabilities. In assessing the fair value, the Company utilizes the results of the valuations (including the market approach to the extent comparables are available) and considers the range of fair values determined under all methods and the extent to which the fair value exceeds the carrying amount of the equity or asset.

The valuation of each reporting unit includes the use of assumptions and estimates of many critical factors, including revenue growth rates and operating margins, discount rates and future market conditions, determination of market multiples and the establishment of a control premium, among others. Forecasts of future operations are based, in part, on operating results and the Company’s expectations as to future market conditions. These types of analyses contain uncertainties because they require the Company to make assumptions and to apply judgments to estimate industry economic factors and the profitability of future business strategies. However, if actual results are not consistent with the Company’s estimates and assumptions, the Company may be exposed to future impairment losses that could be material.

Other intangible assets

The Company’s intangible assets consist of covenants not to compete, customer lists, trademarks, patents and licenses. Each of these intangible assets, excluding licenses, is amortized on a straight-line basis over its useful life ranging from 1 to 20 years and is subject to impairment assessments when there is an indication of a triggering event or abandonment. Licenses are an intangible asset with an indefinite life and are therefore not amortized but rather assessed for impairment by comparing the fair value of the license with its carrying value at least annually and when an indicator of potential impairment has occurred.

Long-lived assets

Long-lived assets held and used include property and equipment, capitalized software and other intangible assets with a finite life. Management uses estimated future cash flows (undiscounted and excluding interest) to measure the recoverability of long-lived assets held and used whenever events or changes in circumstances indicate that the carrying value of an asset may not be fully recoverable. If the undiscounted cash flow analysis indicates a long-lived asset is not recoverable, an impairment loss is recorded for the excess of the carrying amount of the asset over its fair value.

In addition, the Company carries long-lived assets held for sale at the lower of cost or market as of the date that certain criteria have been met. As of December 31, 2013 and 2012 the Company had no material long-lived assets classified as held for sale.

Reserve for known and incurred but not reported claims

The Company provides for title insurance losses by a charge to expense when the related premium revenue is recognized. The amount charged to expense is generally determined by applying a rate (the loss provision rate) to total title insurance premiums and escrow fees. The Company's management estimates the loss provision rate at the beginning of each year and reassesses the rate quarterly to ensure that the resulting incurred but not reported ("IBNR") loss reserve and known claims reserve included in the Company's consolidated balance sheets together reflect management's best estimate of the total costs required to settle all IBNR and known claims. If the ending IBNR reserve is not considered adequate, an adjustment is recorded.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The process of assessing the loss provision rate and the resulting IBNR reserve involves evaluation of the results of an in-house actuarial review. The Company's in-house actuary performs a reserve analysis utilizing generally accepted actuarial methods that incorporate cumulative historical claims experience and information provided by in-house claims and operations personnel. Current economic and business trends are also reviewed and used in the reserve analysis. These include real estate and mortgage markets conditions, changes in residential and commercial real estate values, and changes in the levels of defaults and foreclosures that may affect claims levels and patterns of emergence, as well as any company-specific factors that may be relevant to past and future claims experience. Results from the analysis include, but are not limited to, a range of IBNR reserve estimates and a single point estimate for IBNR as of the balance sheet date.

For recent policy years at early stages of development (generally the last three years), IBNR is estimated using a combination of expected loss rate and multiplicative loss development factor calculations. For more mature policy years, IBNR generally is estimated using multiplicative loss development factor calculations. The expected loss rate method estimates IBNR by applying an expected loss rate to total title insurance premiums and escrow fees, and adjusting for policy year maturity using estimated loss development patterns. Multiplicative loss development factor calculations estimate IBNR by applying factors derived from loss development patterns to losses realized to date. The expected loss rate and loss development patterns are based on historical experience and the relationship of the history to the applicable policy years.

The Company's management uses the IBNR point estimate from the in-house actuary's analysis and other relevant information it may have concerning claims to determine what it considers to be the best estimate of the total amount required for the IBNR reserve.

Title insurance policies are long-duration contracts with the majority of the claims reported to the Company within the first few years following the issuance of the policy. Generally, 75 to 85% of claim amounts become known in the first six years of the policy life, and the majority of IBNR reserves relate to the six most recent policy years. Changes in expected ultimate losses and corresponding loss rates for recent policy years are considered likely and could result in a material adjustment to the IBNR reserves. Based on historical experience, management believes a 50 basis point change to the loss rates for the most recent policy years, positive or negative, is reasonably likely given the long duration nature of a title insurance policy. For example, if the expected ultimate losses for each of the last six policy years increased or decreased by 50 basis points, the resulting impact on the Company's IBNR reserve would be an increase or decrease, as the case may be, of $105.8 million. A material change in expected ultimate losses and corresponding loss rates for older policy years is also possible, particularly for policy years with loss ratios exceeding historical norms. The estimates made by management in determining the appropriate level of IBNR reserves could ultimately prove to be materially different from actual claims experience.

The Company provides for property and casualty insurance losses when the insured event occurs. The Company provides for claims losses relating to its home warranty business based on the average cost per claim as applied to the total of new claims incurred. The average cost per home warranty claim is calculated using the average of the most recent 12 months of claims experience.

Revenues

Title premiums on policies issued directly by the Company are recognized on the effective date of the title policy and escrow fees are recorded upon close of the escrow. Revenues from title policies issued by independent agents are recorded when notice of issuance is received from the agent, which is generally when cash payment is received by the Company. Revenues earned by the Company’s title plant management business are recognized at the time of delivery, as the Company has no significant ongoing obligation after delivery.

Direct premiums of the Company’s specialty insurance segment include revenues from home warranty contracts which are generally recognized ratably over the 12-month duration of the contracts, and revenues from property and casualty insurance policies which are also recognized ratably over the 12-month duration of the policies.

Revenues earned by the Company’s trust operations are recognized at the time of delivery, as the Company has no significant ongoing obligation after delivery.

61

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Premium taxes

Title insurance, property and casualty insurance and home warranty companies, like other types of insurers, are generally not subject to state income or franchise taxes. However, in lieu thereof, most states impose a tax based primarily on insurance premiums written. This premium tax is reported as a separate line item in the consolidated statements of income in order to provide a more meaningful disclosure of the taxation of the Company.

Legal fees

The Company records legal fees in other operating expenses in the period incurred.

Income taxes

The Company accounts for income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company evaluates the need to establish a valuation allowance for deferred tax assets based upon the amount of existing temporary differences, the period in which they are expected to be recovered and expected levels of taxable income. A valuation allowance to reduce deferred tax assets is established when it is considered more likely than not that some or all of the deferred tax assets will not be realized.

The Company recognizes the effect of income tax positions only if sustaining those positions is considered more likely than not. Changes in recognition or measurement of uncertain tax positions are reflected in the period in which a change in judgment occurs. The Company recognizes interest and penalties, if any, related to uncertain tax positions in tax expense.

Share-based compensation

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost is recognized in the Company’s financial statements over the requisite service period of the award using the straight-line method for awards that contain only a service condition and the graded vesting method for awards that contain a performance or market condition. The share-based compensation expense recognized is based on the number of shares ultimately expected to vest, net of forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The Company’s primary means of providing share-based compensation is through the granting of restricted stock units (“RSUs”). RSUs granted generally have graded vesting and include a service condition; and for certain key employees and executives, may also include either a performance or market condition. RSUs receive dividend equivalents in the form of RSUs having the same vesting requirements as the RSUs initially granted.

In addition, the Company has an employee stock purchase plan that allows eligible employees the option to purchase common stock of the Company at 85% of the lower of the closing price on either the first or last day of each offering period. The offering periods are three-month periods beginning on January 1, April 1, July 1 and October 1 of each fiscal year. The Company recognizes an expense in the amount equal to the value of the 15% discount and look-back feature over the three-month offering period.

Earnings per share

Basic earnings per share is computed by dividing net income available to the Company's stockholders by the weighted-average number of common shares outstanding. The computation of diluted earnings per share is similar to the computation of basic earnings per share, except that the weighted-average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if dilutive stock options had been exercised and RSUs were vested. The dilutive effect of stock options and unvested RSUs is computed using the treasury stock method, which assumes any proceeds that could be obtained upon the exercise of stock options and vesting of RSUs would be used to purchase common shares at the average market price for the period. The assumed proceeds include the purchase price the

62

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

grantee pays, the hypothetical windfall tax benefit that the Company receives upon assumed exercise or vesting and the hypothetical average unrecognized compensation expense for the period. The Company calculates the assumed proceeds from excess tax benefits based on the “as-if” deferred tax assets calculated under share based compensation standards.

Certain unvested RSUs contain nonforfeitable rights to dividends as they are eligible to participate in undistributed earnings without meeting service condition requirements. These awards are considered participating securities under the guidance which requires the use of the two-class method when computing basic and diluted earnings per share. The two-class method reduces earnings allocated to common stockholders by dividends and undistributed earnings allocated to participating securities.

Employee benefit plans

The Company recognizes the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability on its consolidated balance sheets and recognizes changes in the funded status in the year in which changes occur, through accumulated other comprehensive loss. The funded status is measured as the difference between the fair value of plan assets and benefit obligation (the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for the other postretirement plans). Actuarial gains and losses and prior service costs and credits that have not been recognized as a component of net periodic benefit cost previously are recorded as a component of accumulated other comprehensive loss. Plan assets and obligations are measured as of December 31.

The Company informally funds its nonqualified deferred compensation plan through tax-advantaged investments known as variable universal life insurance. The Company’s deferred compensation plan assets are included as a component of other assets and the Company’s deferred compensation plan liability is included as a component of pension costs and other retirement plans on the consolidated balance sheets. The income earned on the Company’s deferred compensation plan assets is included as a component of investment income and the income earned by the deferred compensation plan participants is included as a component of personnel costs on the consolidated statements of income.

Foreign currency

The Company operates in foreign countries, including Canada, the United Kingdom, Australia and various other established and emerging markets. The functional currencies of the Company’s foreign subsidiaries are generally their respective local currencies. The financial statements of the foreign subsidiaries are translated into U.S. dollars as follows: assets and liabilities at the exchange rate as of the balance sheet date, equity at the historical rates of exchange, and income and expense amounts at average rates prevailing throughout the period. Translation adjustments resulting from the translation of the subsidiaries’ accounts are included in accumulated other comprehensive loss as a separate component of stockholders’ equity. Gains and losses resulting from foreign currency transactions are included within other operating expenses.

Reinsurance

The Company assumes and cedes large title insurance risks through reinsurance. Additionally, the Company's property and casualty insurance business uses reinsurance to limit risk associated with natural disasters such as windstorms, winter storms, wildfires and earthquakes. In reinsurance arrangements, the primary insurer retains a certain amount of risk under a policy and cedes the remainder of the risk under the policy to the reinsurer. The primary insurer pays the reinsurer a premium in exchange for accepting this risk of loss. The primary insurer generally remains liable to its insured for the total risk, but is reinsured under the terms of the reinsurance agreement. The amount of premiums assumed and ceded is recorded as a component of direct premiums and escrow fees on the Company's income statement. The total amount of premiums assumed and ceded in connection with reinsurance was less than 1.0% of consolidated premium and escrow fees for each of the three years ended December 31, 2013. Payments and recoveries on reinsured losses for the Company's title insurance and property and casualty businesses were immaterial during the three years ended December 31, 2013.

Escrow deposits and trust assets

The Company administers escrow deposits and trust assets as a service to its customers. Escrow deposits totaled $4.7 billion and $4.2 billion at December 31, 2013 and 2012, respectively, of which $1.6 billion and $1.2 billion, respectively, were held at the Company's federal savings bank subsidiary, First American Trust, FSB. The escrow deposits held at First American Trust, FSB, are included in the accompanying consolidated balance sheets in cash and cash equivalents and debt and equity securities, with offsetting liabilities included in deposits. The remaining escrow deposits were held at third-party financial institutions.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Trust assets totaled $3.0 billion and $2.8 billion at December 31, 2013 and 2012, respectively, and were held or managed by First American Trust, FSB. Escrow deposits held at third-party financial institutions and trust assets are not considered assets of the Company and, therefore, are not included in the accompanying consolidated balance sheets. However, the Company could be held contingently liable for the disposition of these assets.

In conducting its operations, the Company often holds customers' assets in escrow, pending completion of real estate transactions. As a result of holding these customers' assets in escrow, the Company has ongoing programs for realizing economic benefits, including investment programs, borrowing agreements, and vendor services arrangements with various financial institutions. The effects of these programs are included in the consolidated financial statements as income or a reduction in expense, as appropriate, based on the nature of the arrangement and benefit received.

Like-kind exchanges

The Company facilitates tax-deferred property exchanges for customers pursuant to Section 1031 of the Internal Revenue Code and tax-deferred reverse exchanges pursuant to Revenue Procedure 2000-37. As a facilitator and intermediary, the Company holds the proceeds from sales transactions and takes temporary title to property identified by the customer to be acquired with such proceeds. Upon the completion of such exchange, the identified property is transferred to the customer or, if the exchange does not take place, an amount equal to the sales proceeds or, in the case of a reverse exchange, title to the property held by the Company is transferred to the customer. Like-kind exchange funds held by the Company totaled $1.4 billion at December 31, 2013 and 2012. The like-kind exchange deposits were held at third-party financial institutions and, due to the structure utilized to facilitate these transactions, the proceeds and property are not considered assets of the Company and, therefore, are not included in the accompanying consolidated balance sheets. All such amounts are placed in deposit accounts insured, up to applicable limits, by the Federal Deposit Insurance Corporation. The Company could be held contingently liable to the customer for the transfers of property, disbursements of proceeds and the return on the proceeds.

Recently Adopted Accounting Pronouncements:

In February 2013, the Financial Accounting Standards Board ("FASB") issued updated guidance requiring entities to present, either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. If the component is not required to be reclassified to net income in its entirety, entities should instead cross reference to the related footnote for additional information. The updated guidance was effective prospectively for interim and annual reporting periods beginning after December 15, 2012, with early adoption permitted. Except for the disclosure requirements, the adoption of the guidance had no impact on the Company's consolidated financial statements.

In July 2012, the FASB issued updated guidance that is intended to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets, other than goodwill, by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. The updated guidance permits entities to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with current guidance. The updated guidance was effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of the guidance had no impact on the Company's consolidated financial statements.

In December 2011, the FASB issued updated guidance requiring entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The updated guidance was effective for interim and annual reporting periods beginning on or after January 1, 2013. The adoption of the guidance had no impact on the Company's consolidated financial statements.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Pending Accounting Pronouncements:

In July 2013, the FASB issued updated guidance intended to eliminate the diversity in practice regarding financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2013, with early adoption permitted. Management expects the adoption of this guidance to have no impact on the Company’s consolidated financial statements.

NOTE 2. Statutory Restrictions on Investments and Stockholders’ Equity:

Investments totaling $128.9 million and $111.9 million were on deposit with state treasurers in accordance with statutory requirements for the protection of policyholders at December 31, 2013 and 2012, respectively.

Pursuant to insurance and other regulations under which the Company’s insurance subsidiaries operate, the amount of dividends, loans and advances available to the Company is limited, principally for the protection of policyholders. As of December 31, 2013, under such regulations, the maximum amount of dividends, loans and advances available to the Company from its insurance subsidiaries in 2014, without prior approval from applicable regulators, was $314.9 million.

The Company’s principal title insurance subsidiary, First American Title Insurance Company (“FATICO”), maintained total statutory capital and surplus of $996.0 million and $956.4 million as of December 31, 2013 and 2012, respectively. Statutory net income for the years ended December 31, 2013, 2012 and 2011 was $199.1 million, $301.9 million and $92.3 million, respectively. FATICO was in compliance with the minimum statutory capital and surplus requirements as of December 31, 2013.

FATICO is domiciled in California and its statutory-basis financial statements are prepared in accordance with accounting practices prescribed or permitted by the California Department of Insurance. The National Association of Insurance Commissioners’ (“NAIC”) Accounting Practices and Procedures Manual (“NAIC SAP”) has been adopted as a component of prescribed or permitted practices by the state of California. The state of California has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Specifically, 1) the timing of amounts released from the statutory premium reserve under California’s required practice differs from NAIC SAP resulting in total statutory capital and surplus that was lower by $193.8 million and $204.1 million at December 31, 2013 and 2012, respectively, than if reported in accordance with NAIC SAP and 2) the amount of title plant assets admitted under California’s required practice differs from NAIC SAP resulting in no impact to total statutory capital and surplus at December 31, 2013 and total statutory capital and surplus that was lower by $19.0 million at December 31, 2012 than if reported in accordance with NAIC SAP. Additionally, for the year ended December 31, 2012 the state of California granted a permitted accounting practice to FATICO that differs from NAIC SAP; specifically, the determination to not record a bulk reserve within the known claims reserve differs from NAIC SAP resulting in total statutory capital and surplus that was higher by $101.4 million at December 31, 2012 than if reported in accordance with NAIC SAP. During 2013, a non-substantive change was adopted by the NAIC whereby bulk reserves were no longer required under NAIC SAP; accordingly, no permitted accounting practice was requested by FATICO as of

December 31, 2013.

Statutory accounting principles differ in some respects from generally accepted accounting principles, and these differences include, but are not limited to, non-admission of certain assets (principally limitations on deferred tax assets, capitalized furniture and other equipment, premiums and other receivables 90 days past due, assets acquired in connection with claim settlements other than real estate or mortgage loans secured by real estate and limitations on goodwill), reporting of bonds at amortized cost, deferral of premiums received as statutory premium reserve, supplemental reserve (if applicable) and exclusion of the incurred but not reported claims reserve.

65

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 3. Debt and Equity Securities:

The amortized cost and estimated fair value of investments in debt securities, all of which are classified as available-for-sale, are as follows:

(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Other-than-temporary impairments in AOCI
December 31, 2013					
U.S. Treasury bonds	$66,400	$669	$(685)	$66,384	$ —
Municipal bonds	491,143	5,113	(10,291)	485,965	—
Foreign bonds	221,298	1,836	(626)	222,508	—
Governmental agency bonds	267,713	233	(5,401)	262,545	—
Governmental agency mortgage-backed securities	1,426,489	2,074	(25,254)	1,403,309	—
Non-agency mortgage-backed securities (1)	19,658	1,167	(1,803)	19,022	20,743
Corporate debt securities	355,893	7,279	(3,088)	360,084	—
	$2,848,594	$18,371	$(47,148)	$2,819,817	$ 20,743
December 31, 2012					
U.S. Treasury bonds	$80,651	$1,574	$(50)	$82,175	$ —
Municipal bonds	361,912	14,516	(606)	375,822	—
Foreign bonds	236,630	2,312	(197)	238,745	—
Governmental agency bonds	324,323	1,445	(318)	325,450	—
Governmental agency mortgage-backed securities	1,271,408	11,259	(1,135)	1,281,532	—
Non-agency mortgage-backed	26,656	—	(4,810)	21,846	20,743

securities (1)					
Corporate debt securities	311,695	14,941	(325)	326,311	—
	$2,613,275	$46,047	$(7,441)	$2,651,881	$ 20,743

(1) At December 31, 2012, the $26.7 million amortized cost is net of $3.6 million in other-than-temporary impairments determined to be credit related which have been recognized in earnings for the year ended December 31, 2012. At December 31, 2013, the $1.8 million gross unrealized losses related to securities determined to be other-than-temporarily impaired. At December 31, 2012, the $4.8 million gross unrealized losses include $4.4 million of unrealized losses for securities determined to be other-than-temporarily impaired and $0.4 million of unrealized losses for securities for which an other-than-temporary impairment has not been recognized. The $20.7 million other-than-temporary impairments recorded in accumulated other comprehensive income (loss) ("AOCI") at December 31, 2013 and 2012, represent the amount of other-than-temporary impairment losses recognized in AOCI which were not included in earnings due to the fact that the losses were not considered to be credit related. Other-than-temporary impairments were recognized in AOCI for non-agency mortgage-backed securities only.

The cost and estimated fair value of investments in equity securities, all of which are classified as available-for-sale, are as follows:

		Gross unrealized		Estimated
(in thousands)	Cost	gains	losses	fair value
December 31, 2013				
Preferred stocks	$9,915	$1,567	$(397)	$11,085
Common stocks	324,184	25,137	(2,363)	346,958
	$334,099	$26,704	$(2,760)	$358,043
December 31, 2012				
Preferred stocks	$13,326	$752	$(41)	$14,037
Common stocks	177,844	6,447	(408)	183,883
	$191,170	$7,199	$(449)	$197,920

66

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In connection with the Separation, TFAC issued to the Company and FATICO a number of shares of its common stock that resulted in the Company and FATICO collectively owning 12.9 million shares of CoreLogic's common stock immediately following the Separation. During 2011 the Company sold 4.0 million shares for an aggregate cash price of $75.8 million and during 2012 the Company and FATICO sold the remaining 8.9 million shares for an aggregate cash price of $207.9 million. At December 31, 2012, the Company no longer owned any CoreLogic common stock.

The Company had the following net unrealized gains (losses) as of December 31, 2013, 2012 and 2011:

	December 31,		
	2013	2012	2011
	(in thousands)		
Debt securities for which an OTTI has been recognized	$(625)	$(4,435)	$(10,937)
Debt securities—all other	(28,152)	43,041	45,268
Equity securities	23,944	6,750	(47,887)
	$(4,833)	$45,356	$(13,556)

Sales of debt and equity securities resulted in realized gains of $17.2 million, $70.1 million and $12.4 million and realized losses of $15.5 million, $0.3 million and $1.4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The Company had the following gross unrealized losses as of December 31, 2013 and 2012:

	Less than 12 months		12 months or longer		Total	
(in thousands)	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
December 31, 2013						
Debt securities:						
U.S. Treasury bonds	$37,492	$(685)	$—	$—	$37,492	$(685)
Municipal bonds	230,180	(8,938)	27,687	(1,353)	257,867	(10,291)
Foreign bonds	56,579	(626)	—	—	56,579	(626)
Governmental agency bonds	203,011	(5,375)	131	(26)	203,142	(5,401)
Governmental agency mortgage-backed securities	838,411	(20,970)	124,425	(4,284)	962,836	(25,254)
	—	—	12,086	(1,803)	12,086	(1,803)

Non-agency mortgage-backed securities						
Corporate debt securities	129,394	(2,422)	12,500	(666)	141,894	(3,088)
Total debt securities	1,495,067	(39,016)	176,829	(8,132)	1,671,896	(47,148)
Equity securities	85,112	(2,718)	1,046	(42)	86,158	(2,760)
Total	$1,580,179	$(41,734)	$177,875	$(8,174)	$1,758,054	$(49,908)
December 31, 2012						
Debt securities:						
U.S. Treasury bonds	$27,219	$(50)	$—	$—	$27,219	$(50)
Municipal bonds	60,229	(557)	451	(49)	60,680	(606)
Foreign bonds	58,262	(183)	1,031	(14)	59,293	(197)
Governmental agency bonds	60,882	(318)	—	—	60,882	(318)
Governmental agency mortgage-backed securities	135,354	(889)	22,112	(246)	157,466	(1,135)
Non-agency mortgage-backed securities	6,544	(1,498)	15,302	(3,312)	21,846	(4,810)
Corporate debt securities	35,537	(227)	996	(98)	36,533	(325)
Total debt securities	384,027	(3,722)	39,892	(3,719)	423,919	(7,441)
Equity securities	34,258	(447)	98	(2)	34,356	(449)
Total	$418,285	$(4,169)	$39,990	$(3,721)	$458,275	$(7,890)

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Substantially all securities in the Company's non-agency mortgage-backed portfolio are senior tranches and all were investment grade at the time of purchase, however, all have been downgraded to below investment grade since initial purchase. The table below summarizes the composition of the Company's non-agency mortgage-backed securities by collateral type and year of issuance. All amounts are as of December 31, 2013.

(in thousands, except number of securities)	Number of Securities	Amortized Cost	Estimated Fair Value
Non-agency mortgage- backed securities:			
Prime single family residential:			
2007	1	$ 3,552	$ 2,873
2006	3	9,389	8,275
2005	1	948	938
Alt-A single family residential:			
2007	1	5,769	6,936
	6	$ 19,658	$ 19,022

The amortized cost and estimated fair value of debt securities at December 31, 2013, by contractual maturities, are as follows:

(in thousands)	Due in one year or less	Due after one through five years	Due after five through ten years	Due after ten years	Total
U.S. Treasury bonds					
Amortized cost	$ 10,583	$40,674	$11,053	$4,090	$66,400
Estimated fair value	$ 10,705	$40,811	$10,873	$3,995	$66,384
Municipal bonds					
Amortized cost	$ 9,578	$187,176	$170,951	$123,438	$491,143
Estimated fair value	$ 9,612	$188,656	$169,512	$118,185	$485,965
Foreign bonds					
Amortized cost	$ 30,636	$176,969	$12,426	$1,267	$221,298
Estimated fair value	$ 30,788	$178,332	$12,105	$1,283	$222,508
Governmental agency bonds					
Amortized cost	$ 7,119	$167,881	$83,566	$9,147	$267,713

Estimated fair value	$ 7,129	$166,043	$80,511	$8,862	$262,545
Corporate debt securities					
Amortized cost	$ 21,352	$235,461	$93,937	$5,143	$355,893
Estimated fair value	$ 21,546	$238,638	$94,512	$5,388	$360,084
Total debt securities excluding mortgage-backed securities					
Amortized cost	$ 79,268	$808,161	$371,933	$143,085	$1,402,447
Estimated fair value	$ 79,780	$812,480	$367,513	$137,713	$1,397,486
Total mortgage-backed securities					
Amortized cost					$1,446,147
Estimated fair value					$1,422,331
Total debt securities					
Amortized cost					$2,848,594
Estimated fair value					$2,819,817

Mortgage-backed securities, which include contractual terms to maturity, are not categorized by contractual maturity because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

68

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Other-than-temporary impairment—debt securities

If the Company intends to sell a debt security in an unrealized loss position or determines that it is more likely than not that the Company will be required to sell a debt security before it recovers its amortized cost basis, the debt security is other-than-temporarily impaired and it is written down to fair value with all losses recognized in earnings. As of December 31, 2013, the Company did not intend to sell any debt securities in an unrealized loss position and it is not more likely than not that the Company will be required to sell debt securities before recovery of their amortized cost basis.

If the Company does not expect to recover the amortized cost basis of a debt security with declines in fair value (even if the Company does not intend to sell the debt security and it is not more likely than not that the Company will be required to sell the debt security), the losses the Company considers to be the credit portion of the other-than-temporary impairment loss ("credit loss") is recognized in earnings and the non-credit portion is recognized in other comprehensive income. The credit loss is the difference between the present value of the cash flows expected to be collected and the amortized cost basis of the debt security. The cash flows expected to be collected are discounted at the rate implicit in the security immediately prior to the recognition of the other-than-temporary impairment.

Expected future cash flows for debt securities are based on qualitative and quantitative factors specific to each security, including the probability of default and the estimated timing and amount of recovery. The detailed inputs used to project expected future cash flows may be different depending on the nature of the individual debt security.

The Company determines if a non-agency mortgage-backed security in a loss position is other-than-temporarily impaired by comparing the present value of the cash flows expected to be collected from the security to its amortized cost basis. If the present value of the cash flows expected to be collected exceed the amortized cost of the security, the Company concludes that the security is not other-than-temporarily impaired. The Company performs this analysis on all non-agency mortgage-backed securities in its portfolio that are in an unrealized loss position. For the securities that were determined not to be other-than-temporarily impaired at December 31, 2013, the present value of the cash flows expected to be collected exceeded the amortized cost of each security.

Cash flows expected to be collected for each non-agency mortgage-backed security are estimated by analyzing loan-level detail to estimate future cash flows from the underlying assets, which are then applied to the security based on the underlying contractual provisions of the securitization trust that issued the security (e.g. subordination levels, remaining payment terms, etc.). The Company uses third-party software to determine how the underlying collateral cash flows will be distributed to each security issued from the securitization trust. The primary assumptions used in estimating future collateral cash flows are prepayment speeds, default rates and loss severity. In developing these assumptions, the Company considers the financial condition of the borrower, loan to value ratio, loan type and geographical location of the underlying property. The Company utilizes publicly available information related to specific assets, generally available market data such as forward interest rate curves and securities, loans and property data and market analytics tools provided through a third party.

The table below summarizes the primary assumptions used at December 31, 2013 in estimating the cash flows expected to be collected for these securities.

	Weighted average		Range
Prepayment speeds	7.9	%	6.7%–9.8%
Default rates	2.6	%	1.7%–3.7%
Loss severity	19.4	%	4.4%–25.7%

As a result of the Company’s security-level review, it did not recognize any other-than-temporary impairments considered to be credit related for the year ended December 31, 2013, and recognized $3.6 million and $9.1 million in earnings for the years ended December 31, 2012 and 2011, respectively. It is possible that the Company could recognize additional other-than-temporary impairment losses on some securities it owns at December 31, 2013 if future events or information cause it to determine that a decline in value is other-than-temporary.

69

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents the change in the credit portion of the other-than-temporary impairments recognized in earnings on debt securities for which a portion of the other-than-temporary impairments related to other factors was recognized in other comprehensive income (loss) for the years ended December 31, 2013, 2012, and 2011.

	December 31,		
	2013	2012	2011
	(in thousands)		
Cumulative credit loss on debt securities held at beginning of period	$16,478	$33,656	$24,590
Addition to credit loss for which an other-than-temporary impairment was previously recognized	—	3,564	7,667
Addition to credit loss for which an other-than-temporary impairment was not previously recognized	—	—	1,401
Accumulated losses on securities that matured or were sold during the year	—	(20,742)	(2)
Cumulative credit loss on debt securities held as of end of period	$16,478	$16,478	$33,656

Other-than-temporary impairment—equity securities

When a decline in the fair value of an equity security, including common and preferred stock, is considered to be other-than-temporary, such equity security is written down to its fair value. When assessing if a decline in value is other-than-temporary, the factors considered include the length of time and extent to which fair value has been below cost, the probability that the Company will be unable to collect all amounts due under the contractual terms of the security, the seniority of the securities, issuer-specific news and other developments, the financial condition and prospects of the issuer (including credit ratings), macro-economic changes (including the outlook for industry sectors, which includes government policy initiatives) and the Company’s ability and intent to hold the security for a period of time sufficient to allow for any anticipated recovery.

When an equity security has been in an unrealized loss position for greater than twelve months, the Company’s review of the security includes the above noted factors as well as other evidence that might exist supporting the view that the security will recover its value in the foreseeable future, typically within the next twelve months. If objective, substantial evidence does not indicate a likely recovery during that timeframe, the Company’s policy is that such losses are considered other-than-temporary and therefore an impairment loss is recorded. For the years ended December 31, 2013, 2012 and 2011, the Company did not record other-than-temporary impairment losses related to its equity securities.

Fair value measurement

The Company classifies the fair value of its debt and equity securities using a three-level hierarchy for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and the reporting entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The hierarchy level assigned to each security in the Company’s available-for-sale portfolio is based on management’s assessment of the transparency and reliability of the inputs used in the valuation of such instrument at the measurement date. The three hierarchy levels are defined as follows:

Level 1—Valuations based on unadjusted quoted market prices in active markets for identical securities.

Level 2—Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment.

70

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

If the inputs used to measure fair value fall into different levels of the fair value hierarchy, a financial security's hierarchy level is based upon the lowest level of input that is significant to the fair value measurement. The valuation techniques and inputs used to estimate the fair value of the Company's debt and equity securities are summarized as follows:

Debt Securities

The fair value of debt securities was based on the market values obtained from independent pricing services that were evaluated using pricing models that vary by asset class and incorporate available trade, bid and other market information and price quotes from well-established independent broker-dealers. The independent pricing services monitor market indicators, industry and economic events, and for broker-quoted only securities, obtain quotes from market makers or broker-dealers that they recognize to be market participants. The pricing services utilize the market approach in determining the fair value of the debt securities held by the Company. The Company obtains an understanding of the valuation models and assumptions utilized by the services and has controls in place to determine that the values provided represent fair value. The Company's validation procedures include comparing prices received from the pricing services to quotes received from other third party sources for certain securities with market prices that are readily verifiable. If the price comparison results in differences over a predefined threshold, the Company will assess the reasonableness of the changes relative to prior periods given the prevailing market conditions and assess changes in the issuers' credit worthiness, performance of any underlying collateral and prices of the instrument relative to similar issuances. To date, the Company has not made any material adjustments to the fair value measurements provided by the pricing services.

Typical inputs and assumptions to pricing models used to value the Company's U.S. Treasury bonds, municipal bonds, foreign bonds, governmental agency bonds, governmental agency mortgage-backed securities and corporate debt securities include, but are not limited to, benchmark yields, reported trades, broker-dealer quotes, credit spreads, credit ratings, bond insurance (if applicable), benchmark securities, bids, offers, reference data and industry and economic events. For mortgage-backed securities, inputs and assumptions may also include the structure of issuance, characteristics of the issuer, collateral attributes and prepayment speeds. The fair value of non-agency mortgage-backed securities was obtained from the independent pricing services referenced above and subject to the Company's validation procedures discussed above. However, since these securities were not actively traded, there were fewer observable inputs available requiring the pricing services to use more judgment in determining the fair value of the securities, therefore the Company classified non-agency mortgage-backed securities as Level 3.

The significant unobservable inputs used in the fair value measurement of the Company's non-agency mortgage-backed securities include prepayment rates, default rates and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for default rates is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Equity Securities

The fair value of equity securities, including preferred and common stocks, were based on quoted market prices for identical assets that are readily and regularly available in an active market.

71

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents the Company's available-for-sale investments measured at fair value on a recurring basis as of December 31, 2013 and 2012, classified using the three-level hierarchy for fair value measurements:

(in thousands)	Estimated fair value	Level 1	Level 2	Level 3
December 31, 2013				
Debt securities:				
U.S. Treasury bonds	$66,384	$—	$66,384	$—
Municipal bonds	485,965	—	485,965	—
Foreign bonds	222,508	—	222,508	—
Governmental agency bonds	262,545	—	262,545	—
Governmental agency mortgage-backed securities	1,403,309	—	1,403,309	—
Non-agency mortgage-backed securities	19,022	—	—	19,022
Corporate debt securities	360,084	—	360,084	—
	2,819,817	—	2,800,795	19,022
Equity securities:				
Preferred stocks	11,085	11,085	—	—
Common stocks	346,958	346,958	—	—
	358,043	358,043	—	—
	$3,177,860	$358,043	$2,800,795	$19,022

(in thousands)	Estimated fair value	Level 1	Level 2	Level 3
December 31, 2012				
Debt securities:				
U.S. Treasury bonds	$82,175	$—	$82,175	$—
Municipal bonds	375,822	—	375,822	—
Foreign bonds	238,745	—	238,745	—
Governmental agency bonds	325,450	—	325,450	—

Governmental agency mortgage-backed securities	1,281,532	—	1,281,532	—
Non-agency mortgage-backed securities	21,846	—	—	21,846
Corporate debt securities	326,311	—	326,311	—
	2,651,881	—	2,630,035	21,846
Equity securities:				
Preferred stocks	14,037	14,037	—	—
Common stocks	183,883	183,883	—	—
	197,920	197,920	—	—
	$2,849,801	$197,920	$2,630,035	$21,846

The Company did not have any transfers in and out of Level 1, Level 2 and Level 3 measurements during the years ended December 31, 2013 and 2012. The Company’s policy is to recognize transfers between levels in the fair value hierarchy at the end of the reporting period.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents a summary of the changes in fair value of Level 3 available-for-sale investments for the years ended December 31, 2013 and 2012:

	Year Ended December 31,	
(in thousands)	2013	2012
Fair value at beginning of year	$21,846	$30,634
Total gains/(losses) (realized and unrealized):		
Included in earnings:		
Net other-than-temporary impairment losses recognized in earnings	—	(3,564)
Included in other comprehensive loss	4,174	6,645
Settlements	(6,998)	(5,553)
Sales	—	(6,316)
Fair value as of December 31	$19,022	$21,846
Unrealized gains (losses) included in earnings for the period relating to Level 3 available-for-sale investments that were still held at the end of the period:		
Net other-than-temporary impairment losses recognized in earnings	$—	$(3,564)

The Company did not purchase any non-agency mortgage-backed securities during the years ended December 31, 2013 and 2012.

NOTE 4. Financing Receivables:

Financing receivables are summarized as follows:

	December 31, 2013	December 31, 2012
	(in thousands)	
Loans receivable, net:		
Real estate–mortgage		
Multi-family residential	$7,455	$8,768
Commercial	69,865	102,626
Other	712	598
	78,032	111,992
Allowance for loan losses	(3,626)	(3,893)
Participations sold	(633)	(761)
Deferred loan fees, net	(18)	14
Loans receivable, net	73,755	107,352
Other long-term investments:		
Notes receivable—secured	10,533	11,358
Notes receivable—unsecured	2,593	2,710
	13,126	14,068
Loss reserve	(2,584)	(2,902)
Notes receivable, net	10,542	11,166
Total financing receivables, net	$84,297	$118,518

Real estate loans are collateralized by properties located primarily in Southern California. The average yield on the loan portfolio was 6.04% and 6.31% for the years ended December 31, 2013 and 2012, respectively. Average yields are affected by prepayment penalties recorded as income, prepayment speeds, loan fees amortized to income and the market interest rates.

73

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

During the third quarter of 2011, the Company began the multi-year process of winding-down the operations of its industrial bank, First Security Business Bank ("FSBB"). Prior to initiating the wind-down, FSBB accepted deposits and used these deposits to purchase or originate loans secured by commercial properties primarily in Southern California. Currently, FSBB continues to accept and service deposits and to service its existing loan portfolio, but is generally no longer originating or purchasing new loans.

Aging analysis of loans and notes receivable at December 31, 2013, is as follows:

	Total	Current	30-59 days past due	60-89 days past due	90 days or more past due	Non-accrual status
	(in thousands)					
Loans Receivable:						
Multi-family residential	$7,455	$7,455	$ —	$ —	$ —	$ —
Commercial	69,865	67,807	—	—	—	2,058
Other	712	712	—	—	—	—
	$78,032	$75,974	$ —	$ —	$ —	$ 2,058
Notes Receivable:						
Secured	$10,533	$5,784	$ 3,668	$ —	$ 231	$ 850
Unsecured	2,593	771	—	—	—	1,822
	$13,126	$6,555	$ 3,668	$ —	$ 231	$ 2,672

Aging analysis of loans and notes receivables at December 31, 2012, is as follows:

	Total	Current	30-59 days past due	60-89 days past due	90 days or more past due	Non-accrual status
	(in thousands)					
Loans Receivable:						
Multi-family residential	$8,768	$8,768	$ —	$ —	$ —	$ —
Commercial	102,626	99,911	—	160	—	2,555
Other	598	556	—	—	—	42
	$111,992	$109,235	$ —	$ 160	$ —	$ 2,597
Notes Receivable:						
Secured	$11,358	$6,517	$ 3,912	$ 72	$ 16	$ 841
Unsecured	2,710	319	—	—	811	1,580
	$14,068	$6,836	$ 3,912	$ 72	$ 827	$ 2,421

The aggregate annual maturities for loans and notes receivable at December 31, 2013, are as follows:

Year	Loans Receivable	Notes Receivable
	(in thousands)	
2014	$1,005	$ 5,315
2015	4,524	1,235
2016	1,592	1,553
2017	6,017	741
2018	9,297	527
2019 and thereafter	55,597	3,755
	$78,032	$ 13,126

74

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 5. Property and Equipment:

Property and equipment consists of the following:

	December 31, 2013	December 31, 2012
	(in thousands)	
Land	$29,816	$30,111
Buildings	277,131	274,352
Furniture and equipment	182,912	169,412
Capitalized software	402,713	379,151
	892,572	853,026
Accumulated depreciation and amortization	(531,224)	(509,576)
	$361,348	$343,450

NOTE 6. Goodwill:

A summary of the changes in the carrying amount of goodwill, by operating segment, for the years ended December 31, 2013 and 2012, is as follows:

	Title Insurance and Services	Specialty Insurance	Total
	(in thousands)		
Balance as of December 31, 2011	$771,655	$46,765	$818,420
Acquisitions	25,648	—	25,648
Foreign currency exchange	1,789	—	1,789
Balance as of December 31, 2012	799,092	46,765	845,857
Acquisitions	4,456	—	4,456
Foreign currency exchange	(4,287)	—	(4,287)
Balance as of December 31, 2013	$799,261	$46,765	$846,026

The Company’s goodwill impairment assessments for 2013, 2012 and 2011 did not indicate impairment to any of its reporting units. There is no accumulated impairment for goodwill as the Company has never recognized impairment to any of its reporting units.

NOTE 7. Other Intangible Assets:

Other intangible assets consist of the following:

	December 31, 2013	December 31, 2012
	(in thousands)	
Finite-lived intangible assets:		
Customer lists	$77,382	$77,981
Covenants not to compete	26,928	26,842
Trademarks	10,026	10,070
Patents	2,840	2,840
	117,176	117,733
Accumulated amortization	(88,624)	(78,495)
	28,552	39,238
Indefinite-lived intangible assets:		
Licenses	17,795	17,857
	$46,347	$57,095

75

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Amortization expense for finite-lived intangible assets was $12.0 million for the years ended December 31, 2013 and 2012 and $13.9 million for the year ended December 31, 2011.

Estimated amortization expense for finite-lived intangible assets for the next five years is as follows:

Year	(in thousands)
2014	$ 8,243
2015	$ 4,726
2016	$ 3,819
2017	$ 2,215
2018	$ 2,116

NOTE 8. Deposits:

Deposit accounts are summarized as follows:

	December 31,	
	2013	2012
	(in thousands, except percentages)	
Escrow accounts:		
Interest bearing	$1,376,921	$904,919
Non-interest bearing	176,964	323,568
	1,553,885	1,228,487
Savings accounts	22,015	25,067
Certificate accounts:		
Less than one year	19,813	20,315
One to five years	6,783	16,900
	26,596	37,215
Business checking and other deposits (1)	90,436	120,424
	$1,692,932	$1,411,193
Annualized interest rates:		
Escrow accounts	0.13 %	0.17 %
Savings accounts	0.50 %	0.60 %
Certificate accounts	1.28 %	1.46 %

(1) Business checking and other deposits primarily reflect non-interest bearing accounts.

76

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 9. Reserve for Known and Incurred But Not Reported Claims:

Activity in the reserve for known and incurred but not reported claims is summarized as follows:

	December 31,		
	2013	2012	2011
	(in thousands)		
Balance at beginning of year	$976,462	$1,014,676	$1,108,238
Provision related to:			
Current year	380,723	335,097	308,425
Prior years	149,633	62,620	111,711
	530,356	397,717	420,136
Payments, net of recoveries, related to:			
Current year	182,653	160,138	149,004
Prior years	296,657	285,848	354,430
	479,310	445,986	503,434
Other	(9,143)	10,055	(10,264)
Balance at end of year	$1,018,365	$976,462	$1,014,676

"Other" primarily represents reclassifications to the reserve for foreign currency gains/losses and assets acquired in connection with claim settlements. Claims activity associated with reinsurance is not material and, therefore, not presented separately. Current year payments include $167.3 million, $144.1 million and $135.1 million in 2013, 2012 and 2011, respectively, that primarily relate to the Company's specialty insurance segment. Prior year payments include $16.0 million, $16.7 million and $20.5 million in 2013, 2012 and 2011, respectively, that relate to the Company's specialty insurance segment.

The provision for title insurance losses, expressed as a percentage of title insurance premiums and escrow fees, was 8.8%, 6.9% and 9.5% for the years ended December 31, 2013, 2012 and 2011, respectively.

The current year rate of 8.8% reflected an ultimate loss rate of 5.0% for the current policy year and a net increase in the loss reserve estimates for prior policy years of $148.5 million. The increase in loss reserve estimates for prior policy years reflected claims development above expected levels during 2013, primarily from domestic lenders policies, commercial policies and the Company's guaranteed valuation product offered in Canada. The reserve strengthening associated with domestic lenders policies was $67.4 million and was primarily attributable to increased claims frequency for policy years 2004 through 2008. The increased claims frequency was primarily due to mortgage lenders and servicers processing a large volume of foreclosures during 2013. As foreclosure processing increases, lenders claims generally increase, because lenders claims typically come from foreclosures in which the lender suffers a loss. The Company expects the high level of foreclosure processing to continue in the near term as mortgage lenders and servicers work through their foreclosure inventory. The reserve strengthening associated with domestic lenders policies reflects these expectations. The reserve strengthening associated with commercial policies was $38.8 million and was primarily attributable to several large commercial claims, mainly from mechanics liens, and primarily related to policy years 2007 and 2008. The reserve strengthening associated with the guaranteed valuation product offered in

Canada was $21.7 million and was primarily attributable to claims frequency exceeding the Company's expectations during 2013. The increase in frequency primarily related to policy years 2007 and 2010. There is substantial uncertainty as to the ultimate loss emergence for the guaranteed valuation product due to the following factors, among others, (i) claims associated with this product are generally made only after a foreclosure on the related property and foreclosure rates in Canada are difficult to predict and (ii) limited historical loss data exists as a result of the relatively recent introduction of this product in 2003. While the Company believes its claims reserve attributable to the guaranteed valuation product is adequate, this uncertainty increases the potential for adverse loss development relative to this product.

As of December 31, 2013, the title insurance and services segment's IBNR reserve was $840.1 million, which reflected management's best estimate. The Company's internal actuary determined a range of reasonable estimates of $729.7 million to $1.0 billion. The range limits are $110.4 million below and $201.0 million above management's best estimate, respectively, and represent an estimate of the range of variation among reasonable estimates of the IBNR reserve. Actuarial estimates are sensitive to assumptions used in models, as well as the structures of the models themselves, and to changes in claims payment and incurral patterns, which can vary materially due to economic conditions, among other factors.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The prior year rate of 6.9% reflected an ultimate loss rate of 5.1% for policy year 2012 and a net increase in the loss reserve estimates for prior policy years of $62.1 million. The increase in loss reserve estimates for prior policy years reflected claims development above expected levels during 2012, primarily from domestic lenders policies and international business, including the guaranteed valuation product offered in Canada. The reserve strengthening associated with domestic lenders policies was $25.6 million and was primarily attributable to policy years 2005 through 2007. This strengthening was primarily due to an increase in claims frequency experienced during 2012, partially offset by a slight decrease in severity. The reserve strengthening associated with the international business, excluding the guaranteed valuation product, was $15.6 million and was primarily related to increased severity experienced during 2012 for policy years 2003 through 2011. The reserve strengthening associated with the guaranteed valuation product was $11.8 million and reflected an increase in claims frequency experienced during the first half of 2012. The increase in frequency primarily related to policy years 2008 and 2009.

The 2011 rate of 9.5% reflected an ultimate loss rate of 5.6% for policy year 2011 and included a $45.3 million reserve strengthening adjustment related to the Company’s guaranteed valuation product offered in Canada, a $32.2 million charge in connection with the settlement of Bank of America’s lawsuit against the Company and $34.2 million in unfavorable development for certain prior policy years, primarily 2007. The reserve strengthening adjustment related to the guaranteed valuation product reflected a significant increase in claim frequency experienced in the first quarter of 2011. More specifically, the number of claims reported in the first quarter of 2011, when annualized, increased approximately 150% when compared with the number of claims reported in 2010. The increase in frequency primarily related to policy years 2005 through 2009 (reflecting the relatively long claims development lag for the guaranteed valuation product). These policy years began showing evidence of higher claims frequencies than prior policy years during the first quarter of 2011. In addition, adverse loss development in 2011 included higher-than-expected claims emergence for commercial and lenders policies, particularly for policy years 2005 through 2007. Management believes that these policy years have higher ultimate loss ratios than historical averages, and that they also have experienced accelerated reporting and payment of claims, particularly on lenders policies. Reasons for higher loss levels and acceleration of claims reporting and payment include adverse underwriting conditions in real estate markets during 2005 through 2007, declines in real estate prices, increased levels of foreclosures and increased mechanics lien exposure due to failures of development projects. For additional discussion regarding the Bank of America lawsuit see Note 20 Litigation and Regulatory Contingencies to the consolidated financial statements.

The current economic environment continues to show potential for volatility over the short term, which may affect title claims. Relevant contributing factors include continuing elevated foreclosure inventory and foreclosure processing, general economic uncertainty and government actions that may mitigate or exacerbate recent trends. Other factors, including factors not yet identified, may also influence claims development. At this point, real estate and financial market conditions appear to be improving, particularly increasing real estate prices and declining mortgage defaults, yet significant uncertainty remains, particularly in regard to governmental regulatory changes and fiscal policies which affect economic conditions broadly. The current environment continues to create an increased potential for actual claims experience to vary significantly from projections, in either direction, which would directly affect the claims provision. If actual claims vary significantly from expected, reserves may be adjusted to reflect updated estimates of future claims.

The volume and timing of title insurance claims are subject to cyclical influences from real estate and mortgage markets. Title policies issued to lenders constitute a large portion of the Company's title insurance volume. These policies insure lenders against losses on mortgage loans due to title defects in the collateral property. Even if an underlying title defect exists that could result in a claim, often the lender must realize an actual loss, or at least be likely to realize an actual loss, for title insurance liability to exist. As a result, title insurance claims exposure is sensitive to lenders' losses on mortgage loans, and is affected in turn by external factors that affect mortgage loan losses, particularly macroeconomic factors.

A general decline in real estate prices can expose lenders to greater risk of losses on mortgage loans, as loan-to-value ratios increase and defaults and foreclosures increase. The current environment is expected to have increased potential for claims on lenders title policies as foreclosure processing volumes are expected to remain elevated in the near term. Title insurance claims exposure for a given policy year is also affected by the quality of mortgage loan underwriting during the corresponding origination year. The Company believes that sensitivity of claims to external conditions in real estate and mortgage markets is an inherent feature of title insurance's business economics that applies broadly to the title insurance industry. Lenders have experienced high losses on mortgage loans from prior years, including loans that were originated during the years 2005 through 2008. These losses have led to higher title insurance claims on lenders policies, and also have accelerated the reporting of claims that would have been realized later under more normal conditions.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Loss ratios (projected to ultimate value) for policy years 2005 through 2008 are higher than loss ratios for policy years 1992 through 2004. The major causes of the higher loss ratios for those four policy years are believed to be confined mostly to that underwriting period. These causes included: rapidly increasing residential real estate prices which led to an increase in the incidences of fraud, lower mortgage loan underwriting standards and a higher concentration than usual of subprime mortgage loan originations.

The projected ultimate loss ratios, as of December 31, 2013, for policy years 2013, 2012 and 2011 were 5.0%, 4.1% and 5.0%, respectively, which are lower than the ratios for 2005 through 2008. These projections were based in part on an assumption that more favorable underwriting conditions existed in 2009 through 2013 than in 2005 through 2008, including, but not limited to, tighter loan underwriting standards. Current claims data from policy years 2009 through 2013, while still at an early stage of development, supports this assumption.

A summary of the Company's loss reserves, broken down into its components of known title claims, incurred but not reported claims and non-title claims, follows:

(in thousands, except percentages)	December 31, 2013		December 31, 2012	
Known title claims	$135,478	13.3 %	$133,070	13.6 %
IBNR	840,104	82.5 %	805,430	82.5 %
Total title claims	975,582	95.8 %	938,500	96.1 %
Non-title claims	42,783	4.2 %	37,962	3.9 %
Total loss reserves	$1,018,365	100.0%	$976,462	100.0%

NOTE 10. Notes and Contracts Payable:

	December 31, 2013	2012
	(in thousands, except percentages)	
4.3% senior unsecured notes due February 1, 2023, net of unamortized discount of $837 at December 31, 2013, effective interest rate of 4.35%	$ 249,163	$ —
Line of credit borrowings due April 17, 2016,	—	160,000

weighted-average interest rate 2.21% at December 31, 2012				
Trust deed notes with maturities through 2032, collateralized by land and buildings with a net book value of $55,206 and $58,244 at December 31, 2013 and 2012, respectively, weighted-average interest rate of 5.42% and 5.44%, at December 31, 2013 and 2012, respectively		38,151		41,749
Other notes and contracts payable with maturities through 2020, weighted-average interest rate of 2.96% and 2.84% at December 31, 2013 and 2012, respectively		22,971		28,011
	$	310,285	$	229,760

The weighted-average interest rate for the Company's notes and contracts payable was 4.34% and 2.87% at December 31, 2013 and 2012, respectively.

The Company maintains a credit agreement with JPMorgan Chase Bank, N.A. ("JPMorgan") as administrative agent, and a syndicate of lenders. The credit agreement is comprised of a $600.0 million revolving credit facility, which will terminate on April 17, 2016, unless terminated earlier. Proceeds under the credit agreement may be used for general corporate purposes. At December 31, 2013, the Company had no outstanding borrowings under the facility.

In the event that the rating by Standard & Poor's Ratings Services ("S&P") is below BBB- (or there is no rating from S&P) and, in addition, such rating by Moody's Investor Services, Inc. ("Moody's") is lower than Baa3 (or there is no rating from Moody's), then the loan commitments are subject to mandatory reduction from (a) 50 percent of the net proceeds of certain equity issuances by any of the Company or certain subsidiaries of the Company (collectively, the "Designated Parties"), and (b) 50 percent of the net proceeds of certain debt incurred or issued by any of the Designated Parties, provided

79

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

that the commitment reductions described above are only required to the extent necessary to reduce the total loan commitments to $300.0 million. The Company is only required to prepay loans to the extent that, after giving effect to any mandatory commitment reduction, the aggregate principal amount of all outstanding loans exceeds the remaining total loan commitments.

At the Company's election, borrowings under the credit agreement bear interest at (a) a base rate plus an applicable spread or (b) an adjusted LIBOR rate plus an applicable spread. The base rate is generally the greatest of (x) 0.50 percent in excess of the federal funds rate, (y) JPMorgan's prime rate, and (z) one-month LIBOR plus one percent. The adjusted LIBOR rate is generally LIBOR times JPMorgan's statutory reserve rate for Eurocurrency funding. The applicable spread varies depending upon the rating assigned by Moody's and S&P. The minimum applicable spread for base rate borrowings is 0.75 percent and the maximum is 1.50 percent. The minimum applicable spread for adjusted LIBOR rate borrowings is 1.75 percent and the maximum is 2.50 percent. The Company may select interest periods of one, two, three or six months or (if agreed to by all lenders) such other number of months for Eurodollar borrowings of loans.

The credit agreement includes representations and warranties, reporting covenants, affirmative covenants, negative covenants, financial covenants and events of default customary for financings of this type. Upon the occurrence of certain insolvency and bankruptcy events of default the loans automatically accelerate. As of December 31, 2013, the Company was in compliance with the financial covenants under the credit agreement.

On January 29, 2013, the Company issued $250.0 million of 4.30% 10-year senior unsecured notes due in 2023. The notes were priced at 99.638% to yield 4.345%. Interest is due semi-annually on February 1 and August 1, beginning August 1, 2013. The Company used a portion of the net proceeds from the sale to repay all borrowings outstanding under its credit facility, increasing the available capacity thereunder to the full $600.0 million size of the facility.

The aggregate annual maturities for notes and contracts payable in each of the five years after December 31, 2013, are as follows:

Year	Notes and contracts payable (in thousands)
2014	$ 13,667
2015	15,020
2016	3,982
2017	5,190
2018	3,429
Thereafter	268,997
	$ 310,285

NOTE 11. Investment Income:

The components of investment income are as follows:

	Year ended December 31,		
	2013	2012	2011
	(in thousands)		
Interest:			
Cash equivalents and deposits with banks	$3,694	$4,407	$6,602
Debt securities	47,226	45,112	47,337
Other long-term investments	2,009	1,013	1,693
Loans receivable	5,474	8,132	10,172
Dividends on equity securities	11,776	5,388	2,896
Equity in earnings of affiliates, net	5,316	6,514	2,717
Other	14,400	10,465	5,354
	$89,895	$81,031	$76,771

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 12. Income Taxes:

For the years ended December 31, 2013, 2012 and 2011, domestic and foreign pretax income from continuing operations before noncontrolling interests was $286.2 million and $24.5 million, $449.6 million and $17.8 million, and $128.2 million and $2.1 million, respectively.

Income taxes are summarized as follows:

	Year ended December 31,		
	2013	2012	2011
	(in thousands)		
Current:			
Federal	$86,406	$82,269	$(23,095)
State	7,887	15,229	(1,267)
Foreign	24,331	8,234	13,926
	118,624	105,732	(10,436)
Deferred:			
Federal	8,937	60,242	69,302
State	9,774	111	4,585
Foreign	(13,691)	(407)	(11,737)
	5,020	59,946	62,150
	$123,644	$165,678	$51,714

Income taxes differ from the amounts computed by applying the federal income tax rate of 35.0%. A reconciliation of this difference is as follows:

	Year ended December 31,		
	2013	2012	2011
	(in thousands)		
Taxes calculated at federal rate	$108,748	$163,592	$45,603
State taxes, net of federal benefit	11,480	9,525	2,499
Change in liability for tax positions	3,537	2,033	2,548
Change in capital loss valuation allowance	—	(5,276)	—
Foreign income taxed at different rates	8,567	2,881	1,805
Foreign tax credit	(5,640)	(2,921)	—
Other items, net	(3,048)	(4,156)	(741)
	$123,644	$165,678	$51,714

The Company's effective income tax rate (income tax expense as a percentage of income before income taxes) was 39.8% for 2013, 35.4% for 2012 and 39.7% for 2011. The differences in the effective tax rates were primarily due to changes in the ratio of permanent differences to income before income taxes, changes in state and foreign income taxes resulting from fluctuations in the Company's noninsurance and foreign subsidiaries' contribution to pretax profits, and changes in the liability related to tax positions reported on the Company's tax returns. The effective tax rate for 2012 included the release of a valuation allowance recorded against capital losses. In addition, the effective tax rates for 2013 and 2012 reflected the generation of foreign tax credits.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The primary components of temporary differences that give rise to the Company's net deferred tax liability are as follows:

	December 31,	
	2013	2012
	(in thousands)	
Deferred tax assets:		
Deferred revenue	$8,360	$8,110
Employee benefits	73,302	82,421
Bad debt reserves	17,588	13,423
Investment in affiliates	8,026	9,096
Loss reserves	1,728	3,044
Pension	86,858	121,605
Net operating loss carryforward	38,867	23,749
Securities	1,880	—
Other	6,782	8,874
	243,391	270,322
Valuation allowance	(18,119)	(14,172)
	225,272	256,150
Deferred tax liabilities:		
Depreciable and amortizable assets	258,855	238,688
Claims and related salvage	21,196	36,307
Securities	—	18,142
	280,051	293,137
Net deferred tax liability	$54,779	$36,987

The exercise of stock options and vesting of restricted stock units represent a tax benefit that has been reflected as a reduction of taxes payable and an increase to equity. The benefits recorded were $6.2 million and $2.4 million for the years ended December 31, 2013 and 2012, respectively.

In connection with the Separation, the Company and TFAC entered into a tax sharing agreement which governs the Company's and CoreLogic's respective rights, responsibilities and obligations for certain tax related matters. At December 31, 2013 and 2012, the Company had a net payable to CoreLogic of $56.5 million and $52.5 million, respectively, related to tax matters prior to the Separation. This amount is included in the Company's consolidated balance sheet in other accounts payable and accrued liabilities. The increase during the current year results from an additional accrual for tax matters prior to the Separation.

At December 31, 2013, the Company had available net operating loss carryforwards for income tax purposes totaling $152.0 million, consisting of federal, state and foreign losses of $1.1 million, $11.2 million and $139.7 million, respectively. Of the aggregate net operating losses, $40.9 million has an indefinite expiration and the remaining $111.1 million expire at various times beginning in 2014. The Company carries a valuation allowance of $18.1 million against its deferred tax assets. Of this amount, $14.2 million relates to net operating losses; the remaining $3.9

million relates to other foreign deferred tax assets. The year-over-year increase in the overall valuation allowance relates to current year foreign losses and other foreign deferred tax assets for which no future tax benefit is expected to be realized.

The Company evaluates the realizability of its deferred tax assets by assessing the valuation allowance and adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve the forecasted taxable income in the applicable taxing jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company's effective tax rate on future earnings.

82

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

During 2012, the Company released a valuation allowance of $5.3 million previously recorded against certain of its deferred tax assets. Specifically, management determined that it was more likely than not that all of its tax capital loss items will be realized prior to expiration as the result of realized gains from sales of securities and favorable market value activity in its securities portfolio. Application of the accounting guidance related to intraperiod tax allocations resulted in the valuation allowance being credited to tax expense in the amount of $5.3 million during the year ended December 31, 2012. As of December 31, 2013, no significant capital loss carryover remains in the Company's deferred tax inventory.

As of December 31, 2013, United States taxes were not provided for on the earnings of the Company's foreign subsidiaries of $121.8 million, as the Company has invested or expects to invest the undistributed earnings indefinitely. If in the future these earnings are repatriated to the United States, or if the Company determines that the earnings will be remitted in the foreseeable future, additional tax provisions may be required. It is not practicable to calculate the deferred taxes associated with these earnings because of the variability of multiple factors that would need to be assessed at the time of any assumed repatriation; however, foreign tax credits may be available to reduce federal income taxes in the event of distribution.

As of December 31, 2013, 2012 and 2011, the liability for income taxes associated with uncertain tax positions was $47.8 million, $47.9 million and $17.3 million, respectively. The decrease in the liability during 2013 was primarily attributable to the Company's effective settlement of a prior year tax return position. The increase in the liability during 2012 was primarily attributable to the Company's claim for a timing adjustment in a prior year tax return. As of December 31, 2013, 2012 and 2011, the liabilities could be reduced by $32.6 million, $32.6 million and $2.9 million, respectively, of offsetting tax benefits associated with the correlative effects of potential adjustments including timing adjustments and state income taxes. The net amounts of $15.2 million, $15.3 million and $14.4 million as of December 31, 2013, 2012 and 2011, respectively, if recognized, would favorably affect the Company's effective tax rate.

A reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, 2013, 2012 and 2011 is as follows:

	December 31,		
	2013	2012	2011
	(in thousands)		
Unrecognized tax benefits—opening balance	$47,900	$17,300	$11,100
Gross increases (decreases)—tax positions in prior period	(600)	200	—
Gross increases—current period tax positions	500	30,500	6,200
Expiration of the statute of limitations for the assessment of taxes	—	(100)	—
Unrecognized tax benefits—ending balance	$47,800	$47,900	$17,300

The Company's continuing practice is to recognize interest and penalties, if any, related to uncertain tax positions in tax expense. As of December 31, 2013, 2012 and 2011, the Company had accrued $4.7 million, $4.2 million and $3.6 million, respectively, of interest and penalties (net of tax benefits of $1.9 million, $1.7 million and $1.4 million, respectively) related to uncertain tax positions.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, various state jurisdictions, and various non-U.S. jurisdictions. The primary non-federal jurisdictions are California, Canada, India, and the United Kingdom. The Company is no longer subject to U.S. federal, state and non-U.S. income tax examinations by taxing authorities for years prior to 2005.

It is reasonably possible that the amount of the unrecognized benefit with respect to certain of the Company's unrecognized tax positions may significantly increase or decrease within the next 12 months. These changes may be the result of items such as ongoing audits or the expiration of federal and state statutes of limitations for the assessment of taxes.

The Company records a liability for potential tax assessments based on its estimate of the potential exposure. New tax laws and new interpretations of laws and rulings by tax authorities may affect the liability for potential tax assessments. Due to the subjectivity and complex nature of the underlying issues, actual payments or assessments may differ from estimates. To the extent the Company's estimates differ from actual payments or assessments, income tax expense is adjusted. The

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Company’s income tax returns in several jurisdictions are being examined by various tax authorities. The Company believes that adequate amounts of tax and related interest, if any, have been provided for any adjustments that may result from these examinations.

NOTE 13. Earnings Per Share:

The Company’s potential dilutive securities are stock options and RSUs. Stock options and RSUs are reflected in diluted net income per share attributable to the Company’s stockholders by application of the treasury-stock method.

The computation of basic and diluted earnings per share is as follows:

	2013	2012	2011
	(in thousands, except per share data)		
Numerator			
Net income attributable to the Company	$ 186,367	$ 301,041	$ 78,276
Less: dividends and undistributed earnings allocated to unvested RSUs	324	682	172
Net income allocated to common stockholders	$ 186,043	$ 300,359	$ 78,104
Denominator			
Basic weighted-average shares	106,991	106,307	105,197
Effect of dilutive employee stock options and RSUs	2,111	2,235	1,717
Diluted weighted-average shares	109,102	108,542	106,914
Net income per share attributable to the Company’s stockholders			
Basic	$ 1.74	$ 2.83	$ 0.74
Diluted	$ 1.71	$ 2.77	$ 0.73

For the years ended December 31, 2013, 2012 and 2011, 11 thousand, 0.7 million and 1.4 million, respectively, of stock options and RSUs were excluded from the weighted-average diluted common shares outstanding due to their antidilutive effect.

NOTE 14. Employee Benefit Plans:

The First American Financial Corporation 401(k) Savings Plan (the “Savings Plan”) allows for employee-elective contributions up to the maximum amount as determined by the Internal Revenue Code. The Company makes discretionary contributions to the Savings Plan based on profitability, as well as contributions of the participants. The Company’s expense related to the Savings Plan amounted to $10.5 million, $27.8 million and $8.7 million for the years ended December 31, 2013, 2012 and 2011, respectively. This expense represents the discretionary contribution made by the Company to employees’ accounts. Participants are allowed to purchase the Company’s common stock as one of the investment options, subject to certain limitations. The Savings Plan held 3,903,000 shares and 4,144,000 shares of the Company's common stock, representing 3.7% and 3.9% of the total shares outstanding at December 31, 2013 and 2012, respectively.

The Company's deferred compensation plan allows participants to defer up to 100% of their salary, commissions and bonus. Participants allocate their deferrals among a variety of investment crediting options (known as "deemed investments"). The term deemed investments means that the participant has no ownership interest in the funds they select; the funds are only used to measure the gains or losses that will be attributed to their deferral account over time. Participants can elect to have their deferral balance paid out in a future year while they are still employed or after their employment ends. The deferred compensation plan is exempt from most provisions of the Employee Retirement Income Security Act ("ERISA") because it is only available to a select group of management and highly compensated employees and is not a qualified employee benefit plan. To preserve the tax-deferred savings advantages of a nonqualified deferred compensation plan, federal law requires that it be unfunded or informally funded. The participants' deferrals and any earnings on those deferrals are general unsecured obligations of the Company. The Company is informally funding the deferred compensation plan through a tax-advantaged investment known as variable universal life insurance. Deferred compensation plan assets are held as an asset of the Company within a special trust, called a "Rabbi Trust." At December 31, 2013 and 2012, the value of the assets in the Rabbi Trust of $73.2 million and $64.4 million, respectively, and the unfunded liabilities of $71.1 million and $61.6 million, respectively, were included in the consolidated balance sheets in other assets and pension costs and other retirement plans, respectively.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company's defined benefit pension plan is a noncontributory, qualified plan with benefits based on the employee's compensation and years of service. The defined benefit pension plan was closed to new entrants effective December 31, 2001 and amended to "freeze" all benefit accruals as of April 30, 2008.

The Company also has nonqualified, unfunded supplemental benefit plans covering certain management personnel. Benefits under the Executive and Management Supplemental Benefit Plans are, subject to the limitations described below, based on a participant's final average compensation, which is computed as the average compensation of the last five full calendar years preceding retirement. Maximum benefits under the Executive and Management Supplemental Benefit Plans are 30% and 15% of final average compensation, respectively. The Company's compensation committee amended and restated the Executive and Management Supplemental Benefit Plans effective as of January 1, 2011. The plans were amended to make the following changes, among others: (i) close the plans to new participants; (ii) fix the period over which the final average compensation that is used to calculate a participant's benefit is determined as the one-year average of the five-year period ended on December 31, 2010, irrespective of the participant's actual retirement date; and (iii) cap the maximum annual benefit at $500,000 for the Company's chief executive officer, at $350,000 for all other Executive Supplemental Benefit Plan participants and at $250,000 for all Management Supplemental Benefit Plan participants. The amendments to the Executive and Management Supplemental Benefit Plans were accounted for as negative plan amendments with the resulting decrease in the projected benefit obligations being recorded to accumulated other comprehensive loss as a prior service credit.

Certain of the Company's subsidiaries have separate savings plans and the Company's international subsidiaries have other employee benefit plans that are included in the other plans, net expense line item shown below.

The following table provides the principal components of employee benefit plan expenses related to the Company's benefit plans:

	Year ended December 31,		
	2013	2012	2011
	(in thousands)		
Expense:			
Savings plan	$10,458	$27,778	$8,697
Defined benefit pension plans	20,975	22,657	22,386
Unfunded supplemental benefit plans	16,673	16,553	17,279
Other plans, net	15,479	10,166	6,628
	$63,585	$77,154	$54,990

85

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes the balance sheet impact, including benefit obligations, assets and funded status associated with the Company's defined benefit pension and supplemental benefit plans:

	December 31, 2013 Defined benefit pension plans	Unfunded supplemental benefit plans	2012 Defined benefit pension plans	Unfunded supplemental benefit plans
	(in thousands)			
Change in projected benefit obligation:				
Benefit obligation at beginning of year	$424,462	$ 250,226	$385,756	$ 223,516
Service costs	—	1,915	—	1,712
Interest costs	17,340	9,521	18,445	10,623
Plan amendment	—	2,088	—	—
Actuarial (gains) losses	(38,766)	(24,233)	37,030	27,226
Benefits paid	(21,001)	(13,059)	(16,769)	(12,851)
Projected benefit obligation at end of year	382,035	226,458	424,462	250,226
Change in plan assets:				
Plan assets at fair value at beginning of year	294,216	—	257,078	—
Actual return on plan assets	10,971	—	33,236	—
Contributions	29,283	13,059	20,671	12,851
Benefits paid	(21,001)	(13,059)	(16,769)	(12,851)
Plan assets at fair value at end of year	313,469	—	294,216	—
Reconciliation of funded status:				
Unfunded status of the plans	$(68,566)	$ (226,458)	$(130,246)	$ (250,226)
Amounts recognized in the consolidated balance sheet:				
Accrued benefit liability	$(68,566)	$ (226,458)	$(130,246)	$ (250,226)
Amounts recognized in accumulated other comprehensive loss:				
Unrecognized net actuarial loss	$162,084	$ 90,303	$215,405	$ 124,183
Unrecognized prior service cost (credit)	40	(29,142)	65	(35,639)
	$162,124	$ 61,161	$215,470	$ 88,544
Accumulated benefit obligation at end of year	$382,035	$ 226,458	$424,462	$ 250,226

Net periodic cost related to the Company's defined benefit pension and supplemental benefit plans includes the following components:

	Year ended December 31, 2013	2012	2011
	(in thousands)		

Expense:			
Service costs	$1,915	$1,712	$2,167
Interest costs	26,861	29,068	30,152
Expected return on plan assets	(18,776)	(15,553)	(15,316)
Amortization of net actuarial loss	32,033	28,368	27,047
Amortization of prior service credit	(4,385)	(4,385)	(4,385)
	$37,648	$39,210	$39,665

The Company's net actuarial loss and prior service credit for defined benefit pension and supplemental benefit plans that will be amortized from accumulated other comprehensive loss into net periodic cost over the next fiscal year are expected to be an expense of $22.4 million and a credit of $4.2 million, respectively.

86

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Weighted-average actuarial assumptions used to determine costs for the plans were as follows:

	December 31, 2013	December 31, 2012
Defined benefit pension plans		
Discount rate	4.18%	4.90%
Rate of return on plan assets	6.50%	5.75%
Unfunded supplemental benefit plans		
Discount rate	3.91%	4.90%

Weighted-average actuarial assumptions used to determine benefit obligations for the plans were as follows:

	December 31, 2013	December 31, 2012
Defined benefit pension plans		
Discount rate	4.97%	4.18%
Unfunded supplemental benefit plans		
Discount rate	4.80%	3.91%

The discount rate assumption used for benefit plan accounting reflects the yield available on high-quality, fixed-income debt securities that match the expected timing of the benefit obligation payments.

Assumptions for the expected long-term rate of return on plan assets are based on future expectations for returns for each asset class based on the calculated market-related value of plan assets and the effect of periodic target asset allocation rebalancing, adjusted for the payment of reasonable expenses of the plan from plan assets. The expected long-term rate of return on assets was selected from within a reasonable range of rates determined by (1) historical real and expected returns for the asset classes covered by the investment policy and (2) projections of inflation over the long-term period during which benefits are payable to plan participants. The Company believes the assumptions are appropriate based on the investment mix and long-term nature of the plan’s investments. The use of expected long-term returns on plan assets may result in recognized pension income that is greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns, and therefore result in a pattern of income and cost recognition that more closely matches the pattern of the services provided by the employees.

The Company has a pension investment policy designed to meet or exceed the expected rate of return on plan asset assumptions. The policy’s investment objective is to increase the pension plan’s funding status such that the plan becomes fully funded on a plan termination basis by taking progressively less risk through aligning a greater percentage of plan assets with plan liabilities as the plan becomes more fully funded.

Under the investment policy, asset allocation targets are segmented into liability tracking assets and return seeking assets. The objective of this allocation strategy is to increase the percentage of assets in liability tracking investments as settlement funded status improves. Return seeking assets generally include pooled investment vehicles, foreign and domestic equities, fixed income securities, cash, REITs, and commodities. Liability tracking assets generally include fixed income securities and pooled investment vehicles. The plan maintains a level of cash and cash equivalents appropriate for the timely disbursement of benefits and payment of expenses.

Subject to the requirements of the investment policy, the investment manager may use commingled investment vehicles including but not limited to mutual funds, common trust funds, commingled trusts, and exchange traded funds. The investment policy prohibits certain investment transactions, including derivatives and other illiquid investments (e.g. private equity and real estate), subject to certain exceptions.

The investment manager tracks the estimated settlement funded status of the plan on a regular basis. When the funded status is equal to or greater than the next trigger point, the investment manager will rebalance to the allocation associated with that trigger point. The objective of liability tracking assets is to achieve performance related to changes in the value of the plan's settlement liabilities, which is consistent with the objective of plan termination.

87

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The pension plan's asset allocation targets based on settlement funded status are as follows:

Settlement funded status	Return seeking assets	Liability tracking assets
100.0 %	0 %	100 %
97.5 %	15 %	85 %
95.0 %	30 %	70 %
92.5 %	40 %	60 %
90.0 %	50 %	50 %
87.5 %	60 %	40 %
85.0 %	70 %	30 %
Below 85.0%	85 %	15 %

A summary of the asset allocations as of December 31, 2013 and 2012 are as follows:

	Percentage of plan assets at December 31,	
	2013	2012
Asset category		
Cash and cash equivalents	0.7 %	0.6 %
Equities	48.3 %	34.1 %
Fixed income funds	29.7 %	38.6 %
Balanced funds	18.9 %	24.3 %
Other	2.4 %	2.4 %

The Company expects to make cash contributions to its defined benefit and unfunded supplemental benefit plans of $27.7 million and $14.0 million, respectively, during 2014.

Benefit payments for all plans, which reflect expected future service, as appropriate, are expected to be made as follows:

Year	(in thousands)
2014	$ 33,726
2015	$ 34,835
2016	$ 35,303
2017	$ 36,962

2018	$ 38,070
Five years thereafter	$ 202,341

The Company determines the fair value of its defined benefit pension plan assets with a three-level hierarchy for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The hierarchy level assigned to each security within the Company's defined benefit pension plan assets is based on management's assessment of the transparency and reliability of the inputs used in the valuation of such instrument at the measurement date. See Note 3 Debt and Equity Securities to the consolidated financial statements for a more in-depth discussion on the fair value hierarchy and a description for each level.

88

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents the Company's defined benefit pension plan assets at fair value as of December 31, 2013 and 2012, classified using the fair value hierarchy:

December 31, 2013	Estimated fair value	Level 1	Level 2	Level 3
	(in thousands)			
Cash and cash equivalents	$2,080	$2,080	$—	$—
Equities (a)	151,604	95,860	55,744	—
Fixed income funds (b)	93,210	49,281	43,929	—
Balanced funds (c)	59,147	—	59,147	—
Other (d)	7,428	—	—	7,428
	$313,469	$147,221	$158,820	$7,428

December 31, 2012	Estimated fair value	Level 1	Level 2	Level 3
	(in thousands)			
Cash and cash equivalents	$1,922	$1,922	$—	$—
Equities (a)	100,283	100,283	—	—
Fixed income funds (b)	113,525	71,525	42,000	—
Balanced funds (c)	71,400	—	71,400	—
Other (d)	7,086	—	—	7,086
	$294,216	$173,730	$113,400	$7,086

(a) Investments in passively managed index funds, actively managed mutual funds with holdings in domestic and international equities and investments in domestic equities. These investments are valued at the closing price reported on the major market on which the individual securities are traded or the Net Asset Value ("NAV") provided by the administrator of the fund.

(b) Investments in passively managed index funds and actively managed mutual funds with holdings in domestic and international corporate bonds, sovereign bonds, mortgage-backed securities, and other fixed income instruments. These investments are valued using matrix pricing models and quoted prices of the securities in active markets.

(c) Investments in global multi-asset risk parity strategy funds with holdings in domestic and international debt and equity securities, commodities, real estate, and derivative investments. These investments are valued using the NAV provided by the administrator of the fund.

(d) Investments in a guaranteed deposit fund with holdings in insurance contracts. These investments are valued at contract value of the fund including contributions and earnings, less applicable costs and liabilities, as provided by the administrator of the fund.

NOTE 15. Fair Value of Financial Instruments:

Accounting guidance requires disclosure of fair value information about financial instruments, whether or not recognized at fair value on the balance sheet, for which it is practical to estimate that value. In the measurement of the fair value of certain financial instruments, other valuation techniques were utilized if quoted market prices were not available. These derived fair value estimates are significantly affected by the assumptions used. Additionally, the guidance excludes certain financial instruments including those related to insurance contracts, pension and other postretirement benefits, and equity method investments.

In estimating the fair value of the financial instruments presented, the Company used the following methods and assumptions:

Cash and cash equivalents

The carrying amount for cash and cash equivalents is a reasonable estimate of fair value due to the short-term maturity of these investments.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Accounts and accrued income receivable, net

The carrying amount for accounts and accrued income receivable, net is a reasonable estimate of fair value due to the short-term maturity of these assets.

Loans receivable, net

The fair value of loans receivable, net is estimated based on the discounted value of the future cash flows using current rates being offered for loans with similar terms to borrowers of similar credit quality.

Investments

The fair value of deposits with banks is estimated based on rates currently offered for deposits of similar remaining maturities, where applicable.

The methodology for determining the fair value of debt and equity securities is discussed in Note 3 Debt and Equity Securities to the consolidated financial statements.

The fair value of notes receivable, net is estimated based on the discounted value of the future cash flows using approximate current market rates being offered for notes with similar maturities and similar credit quality.

Deposits

The carrying value of escrow and other deposit accounts approximates fair value due to the short-term nature of this liability. The fair value of investment certificate accounts is estimated based on the discounted value of future cash flows using a discount rate approximating current market rates for similar liabilities.

Accounts payable and accrued liabilities

The carrying amount for accounts payable and accrued liabilities is a reasonable estimate of fair value due to the short-term maturity of these liabilities. The Company does not include the carrying amounts and fair values of pension costs and other retirement plans as the guidance excludes them from disclosure.

Notes and contracts payable

The fair value of notes and contracts payable are estimated based on current rates offered to the Company for debt of the same remaining maturities.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The carrying amounts and fair values of the Company's financial instruments as of December 31, 2013 and 2012 are presented in the following table.

	December 31, 2013 Carrying Amount	Fair Value	2012 Carrying Amount	Fair Value
	(in thousands)			
Financial Assets:				
Cash and cash equivalents	$834,837	$834,837	$670,529	$670,529
Accounts and accrued income receivable, net	$236,895	$236,895	$259,779	$259,779
Loans receivable, net	$73,755	$73,397	$107,352	$111,925
Investments:				
Deposits with banks	$23,492	$23,601	$27,875	$28,079
Debt securities	$2,819,817	$2,819,817	$2,651,881	$2,651,881
Equity securities	$358,043	$358,043	$197,920	$197,920
Notes receivable, net	$10,542	$9,953	$11,166	$11,376
Financial Liabilities:				
Deposits	$1,692,932	$1,693,138	$1,411,193	$1,411,575
Accounts payable and accrued liabilities	$406,819	$406,819	$390,741	$390,741
Notes and contracts payable	$310,285	$301,007	$229,760	$233,071

The following table presents the fair value of the Company's financial instruments as of December 31, 2013 and 2012, classified using the three-level hierarchy for fair value measurements:

(in thousands)	Fair Value	Level 1	Level 2	Level 3
December 31, 2013				
Financial Assets:				
Cash and cash equivalents	$834,837	$834,837	$—	$—
Accounts and accrued income receivable, net	$236,895	$236,895	$—	$—
Loans receivable, net	$73,397	$—	$—	$73,397
Investments:				
Deposits with banks	$23,601	$2,070	$21,531	$—
Debt securities	$2,819,817	$—	$2,800,795	$19,022
Equity securities	$358,043	$358,043	$—	$—
Notes receivable, net	$9,953	$—	$—	$9,953
Financial Liabilities:				
Deposits	$1,693,138	$1,666,336	$26,802	$—
Accounts payable and accrued liabilities	$406,819	$406,819	$—	$—
Notes and contracts payable	$301,007	$—	$294,221	$6,786

91

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(in thousands)	Fair Value	Level 1	Level 2	Level 3
December 31, 2012				
Financial Assets:				
Cash and cash equivalents	$670,529	$670,529	$—	$—
Accounts and accrued income receivable, net	$259,779	$259,779	$—	$—
Loans receivable, net	$111,925	$—	$—	$111,925
Investments:				
Deposits with banks	$28,079	$6,110	$21,969	$—
Debt securities	$2,651,881	$—	$2,630,035	$21,846
Equity securities	$197,920	$197,920	$—	$—
Notes receivable, net	$11,376	$—	$—	$11,376
Financial Liabilities:				
Deposits	$1,411,575	$1,373,978	$37,597	$—
Accounts payable and accrued liabilities	$390,741	$390,741	$—	$—
Notes and contracts payable	$233,071	$—	$223,218	$9,853

NOTE 16. Share-Based Compensation Plans:

The First American Financial Corporation 2010 Incentive Compensation Plan (the "Incentive Compensation Plan"), effective May 28, 2010, permits the granting of stock options, stock appreciation rights, restricted stock, RSUs, performance units, performance shares and other stock-based awards. Eligible participants in the Incentive Compensation Plan include the Company's directors and officers, as well as other employees. At December 31, 2013, 6.7 million shares of common stock remain available to be issued from either authorized and unissued shares or previously issued shares acquired by the Company, subject to certain annual limits based on the type of award granted. The Incentive Compensation Plan terminates 10 years from the effective date unless cancelled prior to that date by the Company's board of directors.

The First American Financial Corporation 2010 Employee Stock Purchase Plan (the "ESPP") allows eligible employees the option to purchase common stock of the Company at 85% of the lower of the closing price on either the first or last day of each quarterly offering period. There were 350,000 and 323,000 shares issued in connection with this plan for the years ended December 31, 2013 and 2012, respectively. At December 31, 2013, there were 3.8 million shares reserved for future issuances.

The following table presents compensation expense associated with the Company's share-based compensation plans:

	2013	2012	2011

	(in thousands)		
Expense:			
Restricted stock units	$20,827	$13,953	$14,203
Stock options	8	—	9
Employee stock purchase plan	1,466	886	769
	$22,301	$14,839	$14,981

The following table summarizes RSU activity for the year ended December 31, 2013:

(in thousands, except weighted-average grant-date fair value)	Shares	Weighted-average grant-date fair value
RSUs unvested at December 31, 2012	2,962	$ 13.36
Granted during 2013	1,109	$ 24.61
Vested during 2013	(1,260)	$ 13.85
Forfeited during 2013	(91)	$ 17.05
RSUs unvested at December 31, 2013	2,720	$ 17.60

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of December 31, 2013, there was $19.0 million of total unrecognized compensation cost related to unvested RSUs that is expected to be recognized over a weighted-average period of 3.3 years. The fair value of RSUs is generally based on the market value of the Company's shares on the date of grant. The total fair value of shares vested and not distributed for the years ended December 31, 2013, 2012 and 2011 was $4.3 million, $2.3 million and $2.2 million, respectively.

The following table summarizes stock option activity for the year ended December 31, 2013:

(in thousands, except weighted-average exercise price and contractual term)	Number outstanding	Weighted-average exercise price	Weighted-average remaining contractual term	Aggregate intrinsic value
Balance at December 31, 2012	1,670	$ 15.70		
Granted during 2013	132	$ 27.66		
Exercised during 2013	(532)	$ 13.10		
Balance at December 31, 2013	1,270	$ 18.03	2.2 years	$ 12,911
Vested and expected to vest at December 31, 2013	1,270	$ 18.03	2.2 years	$ 12,911
Exercisable at December 31, 2013	1,137	$ 16.91	1.3 years	$ 12,839

As of December 31, 2013, there was $1.1 million of total unrecognized compensation cost related to unvested stock options of the Company that is expected to be recognized over a weighted-average period of 4.0 years.

Total intrinsic value of options exercised for the years ended December 31, 2013, 2012 and 2011 was $6.0 million, $7.1 million and $645 thousand, respectively. This intrinsic value represents the difference between the fair market value of the Company's common stock on the date of exercise and the exercise price of each option.

NOTE 17. Stockholders' Equity:

In March 2011, the Company's board of directors approved a stock repurchase plan which authorizes the repurchase of up to $150.0 million of the Company's common stock, of which $82.9 million remained as of December 31, 2013. Purchases may be made from time to time by the Company in the open market at prevailing market prices or in privately negotiated transactions. During the year ended December 31, 2013, the Company repurchased and retired 3.0 million shares of its common stock for a total purchase price of $64.6 million, and as of December 31, 2013, had repurchased and retired 3.2 million shares of its common stock under the current authorization for a total purchase price of $67.1 million.

NOTE 18. Commitments and Contingencies:

Lease commitments

The Company leases certain office facilities, automobiles and equipment under operating leases, which, for the most part, are renewable. The majority of these leases also provide that the Company pay insurance and taxes.

Future minimum rental payments under operating leases that have initial noncancelable lease terms in excess of one year as of December 31, 2013 are as follows:

	(in thousands)
Year	
2014	$ 79,250
2015	67,150
2016	51,627
2017	34,967
2018	21,435
Thereafter	37,129
	$ 291,558

93

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Total rental expense for all operating leases and month-to-month rentals was $94.6 million, $96.8 million and $102.6 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Other commitments and guarantees

At December 31, 2013 and 2012, the Company was contingently liable for guarantees of indebtedness owed by affiliates and third parties to banks and others totaling $14.7 million and $23.2 million, respectively. The guarantee arrangements relate to promissory notes and other contracts, and contingently require the Company to make payments to the guaranteed party based on the failure of debtors to make scheduled payments according to the terms of the notes and contracts. The Company's maximum potential amount of future payments under these guarantees totaled $14.7 million and $23.2 million at December 31, 2013 and 2012, respectively, and is limited in duration to the terms of the underlying indebtedness. The Company has not incurred any costs as a result of these guarantees and has not recorded a liability on its consolidated balance sheets related to these guarantees at December 31, 2013 and 2012.

The Company also guarantees the obligations of certain of its subsidiaries. These obligations are included in the Company's consolidated balance sheets as of December 31, 2013 and 2012.

NOTE 19. Accumulated Other Comprehensive Income (Loss):

Components of accumulated other comprehensive income (loss) are as follows:

	Net unrealized gains (losses) on securities	Foreign currency translation adjustment	Pension benefit adjustment	Accumulated other comprehensive income (loss)
	(in thousands)			
Balance at December 31, 2010	$(3,237)	$10,960	$(156,803)	$(149,080)
Pretax change before reclassifications	(746)	(6,167)	(42,721)	(49,634)
Pretax change in other-than-temporary impairments for which credit-related portion was recognized in earnings	3,573	—	—	3,573
Amounts reclassified from accumulated other comprehensive income	(10,987)	—	22,662	11,675
Tax effect	(2,012)	—	8,025	6,013
Balance at December 31, 2011	(13,409)	4,793	(168,837)	(177,453)
Pretax change before reclassifications	122,243	5,131	(46,602)	80,772
Pretax change in other-than-temporary impairments for which credit-related portion was recognized in earnings	6,502	—	—	6,502
Amounts reclassified from accumulated other comprehensive income	(69,834)	—	23,983	(45,851)

Tax effect	(23,564)	—	9,048	(14,516)
Balance at December 31, 2012	21,938	9,924	(182,408)	(150,546)
Pretax change before reclassifications	(44,205)	(13,650)	53,080	(4,775)
Pretax change in other-than-temporary impairments for which credit-related portion was recognized in earnings	3,809	—	—	3,809
Amounts reclassified from accumulated other comprehensive income	(9,795)	—	27,648	17,853
Tax effect	19,526	—	(31,404)	(11,878)
Balance at December 31, 2013	$ (8,727)	$ (3,726)	$ (133,084)	$ (145,537)

94

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Components of accumulated other comprehensive income (loss) allocated to the Company and noncontrolling interests are as follows:

	Net unrealized gains (losses) on securities	Foreign currency translation adjustment	Pension benefit adjustment	Accumulated other comprehensive income (loss)
	(in thousands)			
2013				
Allocated to the Company	$(8,734)	$ (3,726)	$(133,084)	$ (145,544)
Allocated to noncontrolling interests	7	—	—	7
Balance at December 31, 2013	$(8,727)	$ (3,726)	$(133,084)	$ (145,537)
2012				
Allocated to the Company	$21,928	$ 9,924	$(182,408)	$ (150,556)
Allocated to noncontrolling interests	10	—	—	10
Balance at December 31, 2012	$21,938	$ 9,924	$(182,408)	$ (150,546)
2011				
Allocated to the Company	$(13,415)	$ 4,793	$(168,837)	$ (177,459)
Allocated to noncontrolling interests	6	—	—	6
Balance at December 31, 2011	$(13,409)	$ 4,793	$(168,837)	$ (177,453)

The reclassifications out of accumulated other comprehensive income for the year ended December 31, 2013 are as follows:

(in thousands)	Amounts reclassified from accumulated other comprehensive income	Affected line items in the consolidated statements of income
Net unrealized gains on securities:		
Net realized gains on sales of securities	$ 9,795	Net realized investment gains
Tax effect	$ (3,811)	
Pension benefit adjustment:		

Amortization of defined benefit pension and supplemental benefit plan items:			
Net actuarial loss	$	(32,033	)(1)
Prior service credit		4,385	(1)
Pretax total	$	(27,648	)
Tax effect	$	10,757	

(1) These accumulated other comprehensive income components are included in the computation of net periodic cost. See Note 14 Employee Benefit Plans for additional details.

NOTE 20. Litigation and Regulatory Contingencies:

The Company and its subsidiaries are parties to a number of non-ordinary course lawsuits. Frequently these lawsuits are similar in nature to other lawsuits pending against the Company's competitors.

For those non-ordinary course lawsuits where the Company has determined that a loss is both probable and reasonably estimable, a liability representing the best estimate of the Company's financial exposure based on known facts has been recorded. Actual losses may materially differ from the amounts recorded.

For a substantial majority of these lawsuits, however, it is not possible to assess the probability of loss. Most of these lawsuits are putative class actions which require a plaintiff to satisfy a number of procedural requirements before proceeding to trial. These requirements include, among others, demonstration to a court that the law proscribes in some manner the

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Company's activities, the making of factual allegations sufficient to suggest that the Company's activities exceeded the limits of the law and a determination by the court—known as class certification—that the law permits a group of individuals to pursue the case together as a class. In certain instances the Company may also be able to compel the plaintiff to arbitrate its claim on an individual basis. If these procedural requirements are not met, either the lawsuit cannot proceed or, as is the case with class certification or compelled arbitration, the plaintiffs lose the financial incentive to proceed with the case (or the amount at issue effectively becomes de minimus). Frequently, a court's determination as to these procedural requirements is subject to appeal to a higher court. As a result of, among other factors, ambiguities and inconsistencies in the myriad laws applicable to the Company's business and the uniqueness of the factual issues presented in any given lawsuit, the Company often cannot determine the probability of loss until a court has finally determined that a plaintiff has satisfied applicable procedural requirements.

Furthermore, because most of these lawsuits are putative class actions, it is often impossible to estimate the possible loss or a range of loss amounts, even where the Company has determined that a loss is reasonably possible. Generally class actions involve a large number of people and the effort to determine which people satisfy the requirements to become plaintiffs—or class members—is often time consuming and burdensome. Moreover, these lawsuits raise complex factual issues which result in uncertainty as to their outcome and, ultimately, make it difficult for the Company to estimate the amount of damages which a plaintiff might successfully prove. In addition, many of the Company's businesses are regulated by various federal, state, local and foreign governmental agencies and are subject to numerous statutory guidelines. These regulations and statutory guidelines often are complex, inconsistent or ambiguous, which results in additional uncertainty as to the outcome of a given lawsuit—including the amount of damages a plaintiff might be afforded—or makes it difficult to analogize experience in one case or jurisdiction to another case or jurisdiction.

Most of the non-ordinary course lawsuits to which the Company and its subsidiaries are parties challenge practices in the Company's title insurance business, though a limited number of cases also pertain to the Company's other businesses. These lawsuits include, among others, cases alleging, among other assertions, that the Company, one of its subsidiaries and/or one of its agents:

- charged an improper rate for title insurance in a refinance transaction, including
- Haskins v. First American Title Insurance Company, filed on September 29, 2010 and pending in the United States District Court of New Jersey,
- Levine v. First American Title Insurance Company, filed on February 26, 2009 and pending in the United States District Court of Pennsylvania,
- Lewis v. First American Title Insurance Company, filed on November 28, 2006 and pending in the United States District Court for the District of Idaho,
- Raffone v. First American Title Insurance Company, filed on February 14, 2004 and pending in the Circuit Court, Nassau County, Florida, and
- Slapikas v. First American Title Insurance Company, filed on December 19, 2005 and pending in the United States District Court for the Western District of Pennsylvania.

All of these lawsuits are putative class actions. A court has only granted class certification in Lewis, Raffone and Slapikas. For the reasons stated above, the Company has been unable to assess the probability of loss or estimate the possible loss or the range of loss or, where the Company has been able to make an estimate, the Company believes the amount is immaterial to the consolidated financial statements as a whole.

- purchased minority interests in title insurance agents as an inducement to refer title insurance underwriting business to the Company or gave items of value to title insurance agents and others for referrals of business, in each case in violation of the Real Estate Settlement Procedures Act, including
- Edwards v. First American Financial Corporation, filed on June 12, 2007 and pending in the United States District Court for the Central District of California.

In Edwards a narrow class has been certified. For the reasons stated above, the Company has been unable to estimate the possible loss or the range of loss.

96

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

- engaged in the unauthorized practice of law, including
- Gale v. First American Title Insurance Company, et al., filed on October 16, 2006 and pending in the United States District Court of Connecticut, and
- Hamilton v. First American Title Insurance Company, et al., filed on August 25, 2008 and pending in the Superior Court of the State of North Carolina, Wake County.

The class in Hamilton was certified. The class originally certified in Gale was subsequently decertified. For the reasons described above, the Company has not yet been able to assess the probability of loss or estimate the possible loss or the range of loss.

- overcharged or improperly charged fees for products and services provided in connection with the closing of real estate transactions, denied home warranty claims, recorded telephone calls, and gave items of value to developers, builders and others as inducements to refer business in violation of certain other laws, such as consumer protection laws and laws generally prohibiting unfair business practices, and certain obligations, including
- Bushman v. First American Title Insurance Company, et al., filed on November 21, 2013 and pending in the Circuit Court of the State of Michigan, County of Washtenaw,
- Carrera v. First American Home Buyers Protection Corporation, filed on September 23, 2009 and pending in the United States District Court for the Southern District of California,
- Chassen v. First American Financial Corporation, et al., filed on January 22, 2009 and pending in the United States District Court of New Jersey,
- Coleman v. First American Home Buyers Protection Corporation, et al., filed on August 24, 2009 and pending in the Superior Court of the State of California, County of Los Angeles,
- Diaz v. First American Home Buyers Protection Corporation, filed on March 10, 2009 and pending in the United States District Court for the Southern District of California,
- Gunning v. First American Title Insurance Company, filed on July 14, 2008 and pending in the United States District Court for the Eastern District of Kentucky,
- Kaufman v. First American Financial Corporation, et al., filed on December 21, 2007 and pending in the Superior Court of the State of California, County of Los Angeles,
- Kirk v. First American Financial Corporation, filed on June 15, 2006 and pending in the Superior Court of the State of California, County of Los Angeles,
- Muehling v. First American Title Company, filed on December 11, 2012 and pending in the Superior Court of the State of California, County of Alameda,
- Sjobring v. First American Financial Corporation, et al., filed on February 25, 2005 and pending in the Superior Court of the State of California, County of Los Angeles,
- Smith v. First American Title Insurance Company, filed on November 23, 2011 and pending in the United States District Court for the Western District of Washington,
- Tavenner v. Talon Group, filed on August 18, 2009 and pending in the United States District Court for the Western District of Washington, and
- Wilmot v. First American Financial Corporation, et al., filed on April 20, 2007 and pending in the Superior Court of the State of California, County of Los Angeles.

All of these lawsuits, except Kirk, Kaufman, and Tavenner, are putative class actions for which a class has not been certified. In Kaufman a class was certified but that certification was subsequently vacated. A trial of the Kirk matter, subject to the outcome of an outstanding evidentiary matter, has concluded and the determination of the court is pending. For the reasons described above, the Company has not yet been able to assess the probability of loss or estimate the possible loss or the range of loss or, where the Company has been able to make an estimate, the Company believes the amount is immaterial to the consolidated financial statements as a whole.

97

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

While some of the lawsuits described above may be material to the Company's operating results in any particular period if an unfavorable outcome results, the Company does not believe that any of these lawsuits will have a material adverse effect on the Company's overall financial condition or liquidity.

On March 5, 2010, Bank of America, N.A. filed a complaint in the North Carolina General Court of Justice, Superior Court Division against United General Title Insurance Company and First American Title Insurance Company alleging that the defendants failed to pay or failed to timely respond to certain claims made on title insurance policies issued in connection with home equity loans or lines of credit that are now in default. On April 1, 2010, the Company filed a third party complaint within the same litigation against Fiserv Solutions, Inc. for other matters relating to the plaintiff's allegations. During the fourth quarter of 2011, the Company, Bank of America and Fiserv settled the lawsuit through mediation. In connection with the case, the Company recorded a charge of $19.2 million in the fourth quarter of 2011 and $13.0 million in the third quarter of 2011, which is net of all recoveries. These charges were recorded to provision for policy losses and other claims on the accompanying consolidated statements of income. The settlement extinguished all Company liability in connection with policies issued to Bank of America of the type that are the subject of the lawsuit, whether or not Bank of America submitted a claim with respect to such policies. The court approved of the settlement on December 8, 2011 and dismissed the case with prejudice.

The Company also is a party to non-ordinary course lawsuits other than those described above. With respect to these lawsuits, the Company has determined either that a loss is not reasonably possible or that the estimated loss or range of loss, if any, is not material to the consolidated financial statements as a whole.

The Company's title insurance, property and casualty insurance, home warranty, banking, thrift, trust and investment advisory businesses are regulated by various federal, state and local governmental agencies. Many of the Company's other businesses operate within statutory guidelines. Consequently, the Company may from time to time be subject to examination or investigation by such governmental agencies. Currently, governmental agencies are examining or investigating certain of the Company's operations. These exams or investigations include inquiries into, among other matters, pricing and rate setting practices in the title insurance industry, competition in the title insurance industry, real estate settlement service customer acquisition and retention practices and agency relationships. With respect to matters where the Company has determined that a loss is both probable and reasonably estimable, the Company has recorded a liability representing its best estimate of the financial exposure based on known facts. While the ultimate disposition of each such exam or investigation is not yet determinable, the Company does not believe that individually or in the aggregate they will have a material adverse effect on the Company's financial condition, results of operations or cash flows. These exams or investigations could, however, result in changes to the Company's business practices which could ultimately have a material adverse impact on the Company's financial condition, results of operations or cash flows.

The Company and its subsidiaries also are involved in numerous ongoing routine legal and regulatory proceedings related to their operations. With respect to each of these proceedings, the Company has determined either that a loss is not reasonably possible or that the estimated loss or range of loss, if any, is not material to the consolidated financial statements as a whole.

NOTE 21. Business Combinations:

During the year ended December 31, 2013, the Company completed four acquisitions for an aggregate purchase price of $5.3 million in cash and accrued contingent consideration of $1.2 million. The purchase price of each acquisition was allocated to the assets acquired and liabilities assumed using a variety of valuation techniques including discounted cash flow analysis. These four acquisitions have been included in the Company’s title insurance and services segment.

In addition to the acquisitions discussed above, during the year ended December 31, 2013, the Company purchased additional noncontrolling interests in companies already included in the Company’s consolidated financial statements for a total purchase price of $1.0 million in cash.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 22. Segment Financial Information:

The Company consists of the following reportable segments and a corporate function:

- The Company's title insurance and services segment issues title insurance policies on residential and commercial property in the United States and offers similar or related products and services internationally. This segment also provides closing and/or escrow services; accommodates tax-deferred exchanges of real estate; provides products, services and solutions involving the use of real property related data designed to mitigate risk or otherwise facilitate real estate transactions; maintains, manages and provides access to title plant records and images; and provides banking, trust and investment advisory services. The Company, through its principal title insurance subsidiary and such subsidiary's affiliates, transacts its title insurance business through a network of direct operations and agents. Through this network, the Company issues policies in the 49 states that permit the issuance of title insurance policies and the District of Columbia. The Company also offers title insurance and other insurance and guarantee products, as well as related settlement services in foreign countries, including Canada, the United Kingdom, Australia and various other established and emerging markets.
- The Company's specialty insurance segment issues property and casualty insurance policies and sells home warranty products. The property and casualty insurance business provides insurance coverage to residential homeowners and renters for liability losses and typical hazards such as fire, theft, vandalism and other types of property damage. This business is licensed to issue policies in all 50 states and the District of Columbia and actively issues policies in 46 states. In certain markets it also offers preferred risk auto insurance to better compete with other carriers offering bundled home and auto insurance. The home warranty business provides residential service contracts that cover residential systems, such as heating and air conditioning systems, and appliances against failures that occur as the result of normal usage during the coverage period. This business currently operates in 39 states and the District of Columbia.

The corporate function consists primarily of certain financing facilities as well as the corporate services that support the Company's business operations. Eliminations consist of inter-segment revenues and related expenses included in the results of the operating segments.

Selected financial information about the Company's operations, by segment, for each of the past three years is as follows:

	Revenues	Depreciation and amortization	Equity in earnings of affiliates, net	Income (loss) before income taxes	Assets	Investment in equity method affiliates	Capital expenditures
	(in thousands)						
2013							
	$4,606,088	$ 66,956	$ 7,387	$ 350,165	$5,751,632	$ 124,921	$ 83,469

Title Insurance and Services							
Specialty Insurance	339,613	4,865	—	42,132	499,788	—	3,673
Corporate	13,008	3,095	(2,071)	(81,589)	330,802	101	—
Eliminations	(2,632)	—	—	—	(61,622)	—	—
	$4,956,077	$ 74,916	$5,316	$ 310,708	$6,520,600	$125,022	$ 87,142
2012							
Title Insurance and Services	$4,200,520	$ 67,610	$7,677	$ 473,681	$5,427,432	$127,217	$ 78,614
Specialty Insurance	315,171	4,553	—	47,459	487,780	—	5,278
Corporate	29,892	2,787	(1,163)	(53,349)	272,928	2,753	—
Eliminations	(3,762)	—	—	(385)	(137,293)	—	—
	$4,541,821	$ 74,950	$6,514	$ 467,406	$6,050,847	$129,970	$ 83,892
2011							
Title Insurance and Services	$3,541,119	$ 69,259	$4,493	$ 173,581	$4,947,903	$132,628	$ 68,098
Specialty Insurance	286,982	4,197	—	39,852	490,620	—	7,024
Corporate	(3,652)	3,433	(1,776)	(83,525)	40,479	4,099	251
Eliminations	(3,875)	—	—	385	(116,792)	—	—
	$3,820,574	$ 76,889	$2,717	$ 130,293	$5,362,210	$136,727	$ 75,373

99

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Total revenues from external customers separated between domestic and foreign operations, and by segment, for each of the three years ended December 31, 2013, 2012 and 2011 is as follows:

	December 31,					
	2013		2012		2011	
	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign
	(in thousands)					
Title Insurance and Services	$4,283,067	$320,413	$3,865,480	$332,577	$3,188,989	$350,239
Specialty Insurance	339,613	—	313,889	—	284,997	—
	$4,622,680	$320,413	$4,179,369	$332,577	$3,473,986	$350,239

Long-lived assets separated between domestic and foreign operations, and by segment, as of December 31, 2013, 2012 and 2011 are as follows:

	December 31,					
	2013		2012		2011	
	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign
	(in thousands)					
Title Insurance and Services	$1,610,310	$135,912	$1,580,399	$151,289	$1,553,839	$136,188
Specialty Insurance	105,724	—	104,698	—	104,371	—
	$1,716,034	$135,912	$1,685,097	$151,289	$1,658,210	$136,188

NOTE 23. Subsequent Events:

On February 5, 2014, the Company entered into a definitive agreement to acquire a company that provides loan quality analytics, decision support tools and loan review services for the mortgage industry for a purchase price of $155 million. The transaction is expected to close by March 31, 2014, subject to customary closing conditions, including certain regulatory reviews. The Company expects to draw $150 million on its credit facility to fund the acquisition.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

QUARTERLY FINANCIAL DATA

(Unaudited)

	Quarter Ended			
	March 31	June 30	September 30	December 31 (1)
	(in thousands, except per share amounts)			
2013				
Revenues	$1,146,763	$1,288,464	$ 1,300,978	$ 1,219,872
Income before income taxes	$59,592	$59,224	$ 107,045	$ 84,847
Net income	$36,232	$34,948	$ 64,095	$ 51,789
Net income attributable to noncontrolling interests	$54	$276	$ 205	$ 162
Net income attributable to the Company	$36,178	$34,672	$ 63,890	$ 51,627
Net income per share attributable to the Company's stockholders (2):				
Basic	$0.34	$0.32	$ 0.60	$ 0.49
Diluted	$0.33	$0.31	$ 0.59	$ 0.48

(1) Net income for the quarter ended December 31, 2013 includes a net reduction of $4.4 million related to certain items that should have been recorded in a prior period. These items decreased diluted net income per share attributable to the Company's stockholders by $0.04 for the quarter.
(2) Net income per share attributable to the Company's stockholders for the four quarters of each fiscal year may not sum to the total for the fiscal year because of the different number of shares outstanding during each period.

	Quarter Ended			
	March 31	June 30	September 30	December 31
	(in thousands, except per share amounts)			
2012				
Revenues	$966,763	$1,089,833	$ 1,208,402	$ 1,276,823
Income before income taxes	$51,550	$112,290	$ 155,882	$ 147,684
Net income	$31,109	$73,517	$ 103,900	$ 93,202
Net (loss) income attributable to noncontrolling interests	$(184)	$516	$ 430	$ (75)
Net income attributable to the Company	$31,293	$73,001	$ 103,470	$ 93,277
Net income per share attributable to the Company's stockholders (1):				
Basic	$0.30	$0.69	$ 0.97	$ 0.87
Diluted	$0.29	$0.68	$ 0.95	$ 0.85

(1) Net income per share attributable to the Company's stockholders for the four quarters of each fiscal year may not sum to the total for the fiscal year because of the different number of shares outstanding during each period.

101

SCHEDULE I

1 OF 1

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

SUMMARY OF INVESTMENTS—OTHER THAN INVESTMENTS IN RELATED PARTIES

(in thousands)

December 31, 2013

Column A Type of investment	Column B Cost	Column C Market value		Column D Amount at which shown in the balance sheet
Deposits with banks:				
Consolidated	$23,492	$ 23,601		$ 23,492
Debt securities:				
U.S. Treasury bonds				
Consolidated	$66,400	$ 66,384		$ 66,384
Municipal bonds				
Consolidated	$491,143	$ 485,965		$ 485,965
Foreign bonds				
Consolidated	$221,298	$ 222,508		$ 222,508
Governmental agency bonds				
Consolidated	$267,713	$ 262,545		$ 262,545
Governmental agency mortgage-backed securities				
Consolidated	$1,426,489	$ 1,403,309		$ 1,403,309
Non-agency mortgage-backed securities				
Consolidated	$19,658	$ 19,022		$ 19,022
Corporate debt securities				
Consolidated	$355,893	$ 360,084		$ 360,084
Total debt securities:				
Consolidated	$2,848,594	$ 2,819,817		$ 2,819,817
Equity securities:				
Consolidated	$334,099	$ 358,043		$ 358,043
Notes receivable, net:				
Consolidated	$10,542	$ 9,953		$ 10,542
Other long-term investments:				
Consolidated	$173,434	$ 173,434	(1)	$ 173,434
Total investments:				
Consolidated	$3,390,161	$ 3,384,848		$ 3,385,328

(1) As other long-term investments are not publicly traded, reasonable estimate of the fair values could not be made without incurring excessive costs.

SCHEDULE II

1 OF 5

FIRST AMERICAN FINANCIAL CORPORATION

(Parent Company)

CONDENSED BALANCE SHEETS

(in thousands, except par values)

	December 31,	
	2013	2012
Assets		
Cash and cash equivalents	$221,666	$163,488
Income taxes receivable	26,527	14,093
Investment in subsidiaries	2,944,803	2,908,476
Other assets	88,752	86,509
	$3,281,748	$3,172,566
Liabilities and Equity		
Accounts payable and other accrued liabilities	$75,656	$64,760
Pension costs and other retirement plans	371,671	445,246
Due to subsidiaries, net	14,236	29,926
Deferred income taxes	54,779	36,987
Notes and contracts payable	249,163	160,000
Notes and contracts payable to subsidiaries	60,000	83,878
	825,505	820,797
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock, $0.00001 par value, Authorized-500 shares; Outstanding-none	—	—
Common stock, $0.00001 par value:		
Authorized—300,000 shares; Outstanding—105,900 shares and 107,239 shares as of December 31, 2013 and 2012, respectively	1	1
Additional paid-in capital	2,077,828	2,111,605
Retained earnings	520,764	387,015
Accumulated other comprehensive loss	(145,544)	(150,556)
Total stockholders’ equity	2,453,049	2,348,065
Noncontrolling interests	3,194	3,704
Total equity	2,456,243	2,351,769
	$3,281,748	$3,172,566

See notes to condensed financial statements

SCHEDULE II

2 OF 5

FIRST AMERICAN FINANCIAL CORPORATION

(Parent Company)

CONDENSED STATEMENTS OF INCOME

(in thousands)

	Year Ended December 31,		
	2013	2012	2011
Revenues			
Dividends from subsidiaries	$372,996	$285,141	$60,600
Other income (loss)	12,804	29,839	(3,604)
	385,800	314,980	56,996
Expenses			
Other expenses	36,184	24,569	26,010
Income before income taxes and equity in undistributed (losses) earnings of subsidiaries	349,616	290,411	30,986
Income taxes	139,127	102,940	12,298
Equity in undistributed (losses) earnings of subsidiaries	(23,425)	114,257	59,891
Net income	187,064	301,728	78,579
Less: Net income attributable to noncontrolling interests	697	687	303
Net income attributable to the Company	$186,367	$301,041	$78,276

See notes to condensed financial statements

SCHEDULE II

3 OF 5

FIRST AMERICAN FINANCIAL CORPORATION

(Parent Company)

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Year Ended December 31,		
	2013	2012	2011
Net income	$187,064	$301,728	$78,579
Other comprehensive income (loss), net of tax:			
Unrealized (loss) gain on securities	(32,992)	31,445	(12,316)
Unrealized gain on securities for which credit-related portion was recognized in earnings	2,327	3,902	2,144
Foreign currency translation adjustment	(13,650)	5,131	(6,167)
Pension benefit adjustment	49,324	(13,571)	(12,034)
Total other comprehensive income (loss), net of tax	5,009	26,907	(28,373)
Comprehensive income	192,073	328,635	50,206
Less: Comprehensive income attributable to noncontrolling interests	694	691	233
Comprehensive income attributable to the Company	$191,379	$327,944	$49,973

See notes to condensed financial statements

SCHEDULE II

4 OF 5

FIRST AMERICAN FINANCIAL CORPORATION

(Parent Company)

CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31, 2013	2012	2011
Cash flows from operating activities:			
Cash provided by (used for) operating activities	$71,326	$(38,703)	$73,816
Cash flows from investing activities:			
Proceeds from sales of equity securities	—	137,823	—
Proceeds from note receivable from CoreLogic	—	—	18,787
Proceeds from sale of property and equipment	—	—	1,056
Contributions to subsidiaries	(800)	(10,999)	—
Net change in other long-term investments	6,549	595	(935)
Capital expenditures	—	—	(29)
Cash provided by investing activities	5,749	127,419	18,879
Cash flows from financing activities:			
Proceeds from issuance of debt	249,095	440,000	—
Repayment of debt	(160,000)	(480,000)	(1,083)
Repayment of debt to subsidiaries	—	(2,902)	(5,269)
Excess tax benefits from share-based compensation	6,202	2,372	1,145
Net proceeds in connection with share-based compensation plans	1,736	12,668	1,152
Purchase of Company shares	(64,606)	—	(2,502)
Cash dividends	(51,324)	(44,705)	(25,216)
Cash used for financing activities	(18,897)	(72,567)	(31,773)
Net increase in cash and cash equivalents	58,178	16,149	60,922
Cash and cash equivalents—Beginning of period	163,488	147,339	86,417
Cash and cash equivalents—End of period	$221,666	$163,488	$147,339

See notes to condensed financial statements

SCHEDULE II

5 OF 5

FIRST AMERICAN FINANCIAL CORPORATION

(Parent Company)

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 1. Description of the Company:

First American Financial Corporation became a publicly traded company following its spin-off from its prior parent, The First American Corporation ("TFAC") on June 1, 2010. On that date, TFAC distributed all of First American Financial Corporation's outstanding shares to the record date shareholders of TFAC on a one-for-one basis. After the distribution, First American Financial Corporation owns TFAC's financial services businesses and TFAC, which reincorporated and assumed the name CoreLogic, Inc., continued to own its information solutions businesses.

First American Financial Corporation is a holding company that conducts all of its operations through its subsidiaries. The Parent Company Financial Statements should be read in connection with the consolidated financial statements and notes thereto included elsewhere in this Form 10-K.

Reclassifications and revisions

Certain 2012 amounts have been reclassified to conform to the 2013 presentation.

The Company has revised its condensed statements of cash flows for the years ended December 31, 2012 and 2011 for errors which resulted in adjustments between cash provided by operating activities, the effect of exchange rate changes on cash and net activity related to noncontrolling interests, which was previously classified as financing activities. In addition, the Company revised the condensed statement of cash flows for the year ended December 31, 2012 for an error to correct the classification of contributions to subsidiaries as investing activities versus the previous classification as financing activities. These adjustments are not considered material, individually or in the aggregate, to the previously issued condensed statements of cash flows. The table below illustrates the effects of these adjustments on the condensed statements of cash flows for those line items affected.

	As previously filed (in thousands)	As revised	Difference
Year Ended December 31, 2012			
Condensed Statement of Cash Flows			
Effect of exchange rate changes on cash	$4,974	$—	$(4,974)
Net activity related to noncontrolling interests	$(4,094)	$—	$4,094
Cash used for operating activities	$(39,583)	$(38,703)	$880
Cash provided by investing activities	$138,418	$127,419	$(10,999)
Cash used for financing activities	$(87,660)	$(72,567)	$15,093

Year Ended December 31, 2011			
Condensed Statement of Cash Flows			
Effect of exchange rate changes on cash	$(5,731)	$—	$5,731
Net activity related to noncontrolling interests	$(4,491)	$—	$4,491
Cash provided by operating activities	$84,038	$73,816	$(10,222)
Cash used for financing activities	$(36,264)	$(31,773)	$4,491

Supplemental information about non-cash financing activity

In 2013, $23.9 million in tax receivables due from subsidiaries were reduced with a corresponding reduction in notes payable to subsidiaries in noncash transactions.

NOTE 2. Dividends Received:

The Company received cash dividends from subsidiaries of $125.1 million, $11.8 million and $75.6 million for the years ended December 31, 2013, 2012 and 2011, respectively.

SCHEDULE III

1 OF 2

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

SUPPLEMENTARY INSURANCE INFORMATION

(in thousands)

BALANCE SHEET CAPTIONS

Column A	Column B	Column C	Column D
Segment	Deferred policy acquisition costs	Claims reserves	Deferred revenues
2013			
Title Insurance and Services	$ 2,375	$ 977,355	$ 14,544
Specialty Insurance	24,437	41,010	177,640
Total	$ 26,812	$ 1,018,365	$ 192,184
2012			
Title Insurance and Services	$ 681	$ 941,748	$ 8,533
Specialty Insurance	21,908	34,714	162,130
Total	$ 22,589	$ 976,462	$ 170,663

SCHEDULE III

2 OF 2

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

SUPPLEMENTARY INSURANCE INFORMATION

(in thousands)

INCOME STATEMENT CAPTIONS

Column A	Column F	Column G	Column H	Column I	Column J	Column K
Segment	Premiums and escrow fees	Net investment income	Loss provision	Amortization of deferred policy acquisition costs	Other operating expenses	Premiums written
2013						
Title Insurance and Services	$3,900,132	$79,940	$343,461	$ 1,261	$816,870	$—
Specialty Insurance	329,194	8,767	186,895	(2,529)	41,725	344,433
Corporate	—	13,008	—	—	27,264	—
Eliminations	—	(2,609)	—	—	(54)	—
Total	$4,229,326	$99,106	$530,356	$ (1,268)	$885,805	$344,433
2012						
Title Insurance and Services	$3,455,592	$101,495	$237,427	$ 1,174	$769,477	$—
Specialty Insurance	296,053	17,513	160,290	(108)	42,395	312,696
Corporate	—	29,892	—	—	24,462	—
Eliminations	—	(3,747)	—	—	(15)	—
Total	$3,751,645	$145,153	$397,717	$ 1,066	$836,319	$312,696
2011						
Title Insurance and Services	$2,852,455	$68,713	$270,697	$ —	$702,508	$—
Specialty Insurance	273,665	11,786	149,439	(1,161)	38,066	280,424
Corporate	—	(3,652)	—	—	21,303	—
Eliminations	—	(3,876)	—	—	1	—
Total	$3,126,120	$72,971	$420,136	$ (1,161)	$761,878	$280,424

109

SCHEDULE IV

1 OF 1

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

REINSURANCE

(in thousands, except percentages)

Segment	Premiums and escrow fees before reinsurance	Ceded to other companies	Assumed from other companies	Premiums and escrow fees	Percentage of amount assumed to premiums and escrow fees	
Title Insurance and Services						
2013	$3,923,117	$ 27,483	$ 4,498	$3,900,132	0.1	%
2012	$3,472,675	$ 19,884	$ 2,801	$3,455,592	0.1	%
2011	$2,861,418	$ 13,744	$ 4,781	$2,852,455	0.2	%
Specialty Insurance						
2013	$338,204	$ 9,010	$ —	$329,194	0.0	%
2012	$305,073	$ 9,020	$ —	$296,053	0.0	%
2011	$283,885	$ 10,220	$ —	$273,665	0.0	%

110

SCHEDULE V

1 OF 3

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

Year Ended December 31, 2013

Column A	Column B	Column C		Column D		Column E
		Additions				
Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions from reserve		Balance at end of period
Reserve deducted from accounts receivable:						
Consolidated	$ 30,917	$ 7,478		$ 6,564	(A)	$ 31,831
Reserve for known and incurred but not reported claims:						
Consolidated	$ 976,462	$ 530,356	$ (9,143)	$ 479,310	(B)	$ 1,018,365
Reserve deducted from loans receivable:						
Consolidated	$ 3,893	$ (215)		$ 52	(A)	$ 3,626
Reserve deducted from notes receivable:						
Consolidated	$ 2,902	$ (132)		$ 186		$ 2,584
Reserve deducted from deferred income taxes:						
Consolidated	$ 14,172	$ 3,578	$ 369			$ 18,119

Note A—Amount represents accounts written off, net of recoveries.

Note B—Amount represents claim payments, net of recoveries.

SCHEDULE V

2 OF 3

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

Year Ended December 31, 2012

Column A	Column B	Column C		Column D		Column E
		Additions				
Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions from reserve		Balance at end of period
Reserve deducted from accounts receivable:						
Consolidated	$30,504	$4,927		$ 4,514	(A)	$30,917
Reserve for known and incurred but not reported claims:						
Consolidated	$1,014,676	$397,717	$10,055	$ 445,986	(B)	$976,462
Reserve deducted from loans receivable:						
Consolidated	$4,171			$ 278	(A)	$3,893
Reserve deducted from notes receivable:						
Consolidated	$4,183	$462		$ 1,743		$2,902
Reserve deducted from deferred income taxes:						
Consolidated	$21,426		$15	$ 7,269		$14,172

Note A—Amount represents accounts written off, net of recoveries.

Note B—Amount represents claim payments, net of recoveries.

SCHEDULE V

3 OF 3

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

Year Ended December 31, 2011

Column A	Column B	Column C		Column D		Column E
		Additions				
Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions from reserve		Balance at end of period
Reserve deducted from accounts receivable:						
Consolidated	$39,904	$1,723		$ 11,123	(A)	$30,504
Reserve for known and incurred but not reported claims:						
Consolidated	$1,108,238	$420,136	$(10,264)	$ 503,434	(B)	$1,014,676
Reserve deducted from loans receivable:						
Consolidated	$3,271	$900				$4,171
Reserve deducted from notes receivable:						
Consolidated	$5,905	$1,026		$ 2,748		$4,183
Reserve deducted from deferred income taxes:						
Consolidated	$19,126		$5,276	$ 2,976		$21,426

Note A—Amount represents accounts written off, net of recoveries.

Note B—Amount represents claim payments, net of recoveries.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
None.

Item 9A. Controls and Procedures
Disclosure Controls and Procedures

The Company’s chief executive officer and chief financial officer have concluded that, as of December 31, 2013, the end of the fiscal year covered by this Annual Report on Form 10-K, the Company’s disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, were effective, based on the evaluation of these controls and procedures required by Rule 13a-15(b) thereunder.

Management’s Annual Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company’s internal control over financial reporting has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company’s internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorization of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the Company’s consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control—Integrated Framework (1992). Based on that assessment under the framework in Internal Control—Integrated Framework (1992), management determined that, as of December 31, 2013, the Company’s internal control over financial reporting was effective.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the Company’s consolidated financial statements provided in Item 8, above, has issued a report on the Company’s internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

There was no change in the Company’s internal control over financial reporting during the quarter ended December 31, 2013, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Item 9B. Other Information
None.

PART III

The information required by Items 10 through 14 of this report is expected to be set forth in the sections entitled "Information Regarding the Nominees for Election," "Information Regarding the Other Incumbent Directors," "Election of Class I Directors," "Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance," "Board and Committee Meetings," "Executive Compensation," "Compensation Discussion and Analysis," "2013 Director Compensation," "Codes of Ethics," "Compensation Committee Interlocks and Insider Participation," "Compensation Committee Report," "Securities Authorized for Issuance under Equity Compensation Plans," "Who are the largest principal stockholders outside of management?," "Security Ownership of Management," "Principal Accounting Fees and Services" "Policy on Audit Committee Pre-approval of Audit and Permissible Nonaudit Services of Independent Auditor," "Transactions with Management and Others" and "Independence of Directors" in the Company's definitive proxy statement, and is hereby incorporated in this report and made a part hereof by reference. If the definitive proxy statement is not filed within 120 days after the close of the fiscal year, the Company will file an amendment to this Annual Report on Form 10-K to include the information required by Items 10 through 14.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. & 2. Financial Statements and Financial Statement Schedules

The Financial Statements and Financial Statement Schedules filed as part of this report are listed in the accompanying index at page 49 in Item 8 of Part II of this report.

(a) 3. Exhibits. See Exhibit Index. (Each management contract or compensatory plan or arrangement in which any director or named executive officer of First American Financial Corporation, as defined by Item 402(a)(3) of Regulation S-K (17 C.F.R. §229.402(a)(3)), participates that is included among the exhibits listed on the Exhibit Index is identified on the Exhibit Index by an asterisk (*).)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST AMERICAN
FINANCIAL CORPORATION
(Registrant)

By /S/ DENNIS J. GILMORE
Dennis J. Gilmore
Chief Executive Officer
(Principal Executive Officer)
Date: February 25, 2014

By /S/ MARK E. SEATON
Mark E. Seaton
Chief Financial Officer
(Principal Financial Officer)
Date: February 25, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ DENNIS J. GILMORE	Chief Executive Officer and Director	February 25, 2014
	(Principal Executive Officer)	
Dennis J. Gilmore		
/S/ Mark E. Seaton	Chief Financial Officer	February 25, 2014
	(Principal Financial Officer)	
Mark E. Seaton		
/S/ Matthew F. Wajner	Chief Accounting Officer	February 25, 2014
	(Principal Accounting Officer)	
Matthew F. Wajner		
/S/ PARKER S. KENNEDY	Chairman of the Board of Directors	February 25, 2014

Parker S. Kennedy

/S/ ANTHONY K. ANDERSON	Director	February 25, 2014
Anthony K. Anderson		
/S/ GEORGE L. ARGYROS	Director	February 25, 2014
George L. Argyros		
/S/ JAMES L. DOTI	Director	February 25, 2014
James L. Doti		
/S/ MICHAEL D. MCKEE	Director	February 25, 2014
Michael D. McKee		
/S/ THOMAS V. MCKERNAN	Director	February 25, 2014
Thomas V. McKernan		
/S/ Mark C. Oman	Director	February 25, 2014
Mark C. Oman		

117

Signature	Title	Date
/S/ HERBERT B. TASKER	Director	February 25, 2014
Herbert B. Tasker		
/S/ VIRGINIA M. UEBERROTH	Director	February 25, 2014
Virginia M. Ueberroth		

118

Exhibit No.	Description	Location
3.1	Amended and Restated Certificate of Incorporation of First American Financial Corporation dated May 28, 2010.	Incorporated by reference herein to Exhibit 3.1 to the Current Report on Form 8-K dated June 1, 2010.
3.2	Bylaws of First American Financial Corporation.	Incorporated by reference herein to Exhibit 3.2 to the Current Report on Form 8-K dated June 1, 2010.
4.1	Indenture, dated as of January 24, 2013, between the Company and U.S. Bank National Association, as trustee.	Incorporated by reference herein to Exhibit 4.1 to the Form S-3ASR filed January 24, 2013.
4.2	First Supplemental Indenture, dated as of January 29, 2013, between the Company and U.S. Bank National Association.	Incorporated by reference herein to Exhibit 4.2 to the Current Report on Form 8-K dated January 29, 2013.
4.3	Form of 4.30% Senior Notes due 2023.	Incorporated by reference herein to Exhibit A of Exhibit 4.2 to the Current Report on Form 8-K dated January 29, 2013.
10.1	Separation and Distribution Agreement by and between The First American Corporation (n/k/a CoreLogic, Inc.) and First American Financial Corporation dated as of June 1, 2010.	Incorporated by reference herein to Exhibit 10.1 to the Current Report on Form 8-K dated June 1, 2010.
10.2.1	Credit Agreement dated as of April 17, 2012, among First American Financial Corporation, the Guarantors party thereto, the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent.	Incorporated by reference herein to Exhibit 10.1 to Form 10-Q for the quarter ended June 30, 2012.
10.2.2	Amendment No. 1 dated as of November 14, 2012 to the Credit Agreement dated as of April 17, 2012, among First American Financial Corporation, the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent.	Incorporated by reference herein to Exhibit 10.1 to the Current Report on Form 8-K dated November 14, 2012.
10.3	Tax Sharing Agreement by and between The First American Corporation (n/k/a CoreLogic, Inc.) and First American Financial Corporation dated as of June 1, 2010.	Incorporated by reference herein to Exhibit 10.2 to the Current Report on Form 8-K dated June 1, 2010.
10.4	Third Amended and Restated Secured Promissory Note of First American Financial Corporation to First American Title Insurance Company in the amount of $60,000,000.00, dated as of September 30, 2013.	Incorporated by reference herein to Exhibit 10.1 to Form 10-Q for the quarter ended September 30, 2013.
*10.5		

	First American Financial Corporation Executive Supplemental Benefit Plan, amended and restated effective as of January 1, 2011.	Incorporated by reference herein to Exhibit 10.12 to the Annual Report on Form 10-K for the year ended December 31, 2010.
*10.6	First American Financial Corporation Deferred Compensation Plan, amended and restated effective as of January 1, 2012.	Incorporated by reference herein to Exhibit 10.13 to the Annual Report on Form 10-K for the year ended December 31, 2011.
*10.7	First American Financial Corporation 2010 Incentive Compensation Plan, effective May 28, 2010.	Incorporated by reference herein to Appendix A to the Definitive Proxy Statement on Schedule 14A filed April 9, 2012.
*10.7.1	Form of Notice of Restricted Stock Unit Grant (Non-Employee Director) and Restricted Stock Unit Award Agreement (Non-Employee Director) for Non-Employee Director Restricted Stock Unit Award approved January 18, 2011.	Incorporated by reference herein to Exhibit 10.15 to the Annual Report on Form 10-K for the year ended December 31, 2010.

Exhibit No.	Description	Location
*10.7.2	Form of Notice of Restricted Stock Unit Grant (Non-Employee Director) and Restricted Stock Unit Award Agreement (Non-Employee Director) for Non-Employee Director Restricted Stock Unit Award approved January 17, 2012.	Incorporated by reference herein to Exhibit 10.17 to the Annual Report on Form 10-K for the year ended December 31, 2011.
*10.7.3	Form of Notice of Restricted Stock Unit Grant (Non-Employee Director) and Restricted Stock Unit Award Agreement (Non-Employee Director) for Non-Employee Director Restricted Stock Unit Award approved January 15, 2013.	Incorporated by reference herein to Exhibit 10.7.4 to the Annual Report on Form 10-K for the year ended December 31, 2012.
*10.7.4	Form of Notice of Restricted Stock Unit Grant (Non-Employee Director) and Restricted Stock Unit Award Agreement (Non-Employee Director) for Non-Employee Director Restricted Stock Unit Award approved January 14, 2014.	Attached.
*10.7.5	Form of Notice of Restricted Stock Unit Grant (Employee) and Restricted Stock Unit Award Agreement (Employee), approved January 25, 2010.	Incorporated by reference herein from Exhibit 10(zz) to The First American Corporation (n/k/a CoreLogic, Inc.) Annual Report on Form 10-K for the year ended December 31, 2009.
*10.7.6	Form of Notice of Restricted Stock Unit Grant and Restricted Stock Unit Award Agreement approved June 10, 2010.	Incorporated by reference herein to Exhibit 10(i) to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.
*10.7.7	Form of Notice of Restricted Stock Unit Grant (Employee) and Restricted Stock Unit Award Agreement (Employee), approved February 11, 2011.	Incorporated by reference herein to Exhibit 10.21 to the Annual Report on Form 10-K for the year ended December 31, 2010.
*10.7.8	Form of Notice of Restricted Stock Unit Grant (Employee) and Restricted Stock Unit Award Agreement (Employee), approved January 17, 2012.	Incorporated by reference herein to Exhibit 10.21.1 to the Annual Report on Form 10-K for the year ended December 31, 2011.
*10.7.9	Form of Notice of Restricted Stock Unit Grant (Valdes) and Restricted Stock Unit Award Agreement (Valdes), approved February 13, 2012.	Incorporated by reference herein to Exhibit 10.21.2 to the Annual Report on Form 10-K for the year ended December 31, 2011.
*10.7.10	Form of Notice of Restricted Stock Unit Grant (Employee) and Restricted Stock Unit Award Agreement (Employee), approved January 15, 2013.	Incorporated by reference herein to Exhibit 10.7.10 to the Annual Report on Form 10-K for the year ended December 31, 2012.
*10.7.11		

	Form of Notice of Restricted Stock Unit Grant (Valdes) and Restricted Stock Unit Award Agreement (Valdes), approved February 7, 2013.	Incorporated by reference herein to Exhibit 10.7.11 to the Annual Report on Form 10-K for the year ended December 31, 2012.
*10.7.12	Form of Notice of Restricted Stock Unit Grant (Employee) and Restricted Stock Unit Award Agreement (Employee), approved January 14, 2014.	Attached.
*10.7.13	Form of Notice of Performance Unit Grant and Performance Unit Award Agreement, approved January 15, 2013.	Incorporated by reference herein to Exhibit 10.7.15 to the Annual Report on Form 10-K for the year ended December 31, 2012.
*10.7.14	Form of Notice of Performance Unit Grant and Performance Unit Award Agreement, approved January 14, 2014.	Attached.
*10.8	Employment Agreement, dated August 30, 2011, between First American Financial Corporation and Dennis J. Gilmore.	Incorporated by reference herein to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2011.

Exhibit No.	Description	Location
*10.9	Employment Agreement, dated August 30, 2011, between First American Financial Corporation and Kenneth D. DeGiorgio.	Incorporated by reference herein to Exhibit 10. 2 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2011.
*10.10	Employment Agreement, dated August 30, 2011, between First American Financial Corporation and Max O. Valdes.	Incorporated by reference herein to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2011.
*10.11	First American Financial Corporation Form of Amended and Restated Change in Control Agreement effective as of December 31, 2010.	Incorporated by reference herein to Exhibit 10(c) to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2010.
(21)	Subsidiaries of the registrant.	Attached.
(23)	Consent of Independent Registered Public Accounting Firm.	Attached.
(31)(a)	Certification by Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Act of 1934.	Attached.
(31)(b)	Certification by Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.	Attached.
(32)(a)	Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.	Attached.
(32)(b)	Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.	Attached.
101.INS	XBRL Instance Document.	Attached.
101.SCH	XBRL Taxonomy Extension Schema Document.	Attached.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Attached.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Attached.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Attached.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Attached.

121

Explanation of Responses: