First American Financial Corp
Form 10-K
February 23, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 001-34580

(Exact name of registrant as specified in its charter)

Incorporated in Delaware	26-1911571
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)

1 First American Way, Santa Ana, California 92707-5913

(Address of principal executive offices) (Zip Code)

(714) 250-3000

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Common	New York Stock Exchange
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2014 was $2,921,903,015.

On February 18, 2015, there were 107,781,233 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement with respect to the 2015 annual meeting of the stockholders are incorporated by reference in Part III of this report. The definitive proxy statement or an amendment to this Form 10-K will be filed no later than 120 days after the close of registrant's fiscal year.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

INFORMATION INCLUDED IN REPORT

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CERTAIN STATEMENTS IN THIS ANNUAL REPORT ON FORM 10-K, INCLUDING BUT NOT LIMITED TO THOSE RELATING TO:

- THE COMPANY’S PURSUIT OF GROWTH OPPORTUNITIES IN ITS CORE BUSINESS AND THE BUILDING, EXPANSION AND MANAGEMENT OF ITS RELATED BUSINESSES, INCLUDING THROUGH ACQUISITIONS;
- THE MAKING OF INVESTMENTS DESIGNED TO IMPROVE THE CUSTOMER EXPERIENCE;
- THE EFFECT OF A DECREASE IN PRODUCTS OR SERVICES PURCHASED BY OR FOR THE BENEFIT OF THE COMPANY’S MOST SIGNIFICANT CUSTOMERS;
- FUTURE ACTIONS TO BE TAKEN IN CONNECTION WITH THE COMPANY’S REVIEW OF ITS AGENCY RELATIONSHIPS;
- THE COMPANY’S CONTINUED PRACTICE OF ASSUMING AND CEDING LARGE TITLE INSURANCE RISKS THROUGH REINSURANCE;
- CONTINUED PRICE AND AGENCY SPLIT ADJUSTMENTS;
- THE EFFECTS OF THE CONSUMER FINANCIAL PROTECTION BUREAU’S INTEGRATED DISCLOSURE RULES;
- THE LIKELIHOOD OF CHANGES IN EXPECTED ULTIMATE LOSSES AND CORRESPONDING LOSS RATES AND RELATED ASSUMPTIONS;
- ANTICIPATED RECOVERIES IN CONNECTION WITH LARGE COMMERCIAL CLAIMS;
- THE LIKELIHOOD AND EFFECTS OF CYBER ATTACKS AND SIMILAR INCIDENTS;
- THE EFFECT OF LAWSUITS, REGULATORY AUDITS AND INVESTIGATIONS AND OTHER LEGAL PROCEEDINGS ON THE COMPANY’S FINANCIAL CONDITION, RESULTS OF OPERATIONS OR CASH FLOWS;
- FUTURE PAYMENT OF DIVIDENDS;
- THE HOLDING OF AND EXPECTED CASH FLOW FROM DEBT SECURITIES AND ASSUMPTIONS RELATING THERETO;
- POTENTIAL FUTURE IMPAIRMENT CHARGES AND RELATED ASSUMPTIONS;
- THE EFFECT OF PENDING ACCOUNTING PRONOUNCEMENTS ON THE COMPANY’S FINANCIAL STATEMENTS;
- AN IMPROVING ECONOMY AND STRONGER HOUSING MARKET, INCLUDING MODEST GROWTH IN THE HOME PURCHASE MARKET WITH SOME IMPROVEMENT IN TRANSACTION LEVELS AND PRICES, BUT AN UNCERTAIN REFINANCE MARKET;
- CONTINUED STRENGTH IN THE COMMERCIAL MARKET, BUT WITH DECLINING GROWTH RATES;
- EXPENSE MANAGEMENT EFFORTS, INCLUDING THE COMPANY’S CONTINUED MONITORING OF ORDER VOLUMES AND RELATED STAFFING LEVELS, AND ADJUSTMENTS TO STAFFING LEVELS AS NECESSARY;
- EXPECTED FORECLOSURES AND FORECLOSURE PROCESSING ACTIVITY;
- UNCERTAINTY AND VOLATILITY IN THE CURRENT ECONOMIC ENVIRONMENT AND ITS EFFECT ON TITLE CLAIMS;
- THE VARIANCE BETWEEN ACTUAL CLAIMS EXPERIENCE AND PROJECTIONS AND FUTURE RESERVE ADJUSTMENTS BASED ON UPDATED ESTIMATES OF FUTURE CLAIMS;
- IMPROVEMENT OF SPECIALTY INSURANCE PROFIT MARGINS AS REVENUES INCREASE;
- PROJECTED INTEREST AND BENEFIT PLAN EXPENSES;
- THE SUFFICIENCY OF THE COMPANY’S RESOURCES TO SATISFY OPERATIONAL CASH REQUIREMENTS;

- THE INTENDED USE OF PROCEEDS FROM THE COMPANY'S ISSUANCE OF SENIOR SECURED NOTES;
- THE TIMING OF CLAIM, PENSION AND SUPPLEMENTAL BENEFIT PLAN PAYMENTS;
- ASSUMPTIONS REGARDING THE LEVEL OF THE COMPANY'S INTEREST RATE RISK, EQUITY PRICE RISK, FOREIGN CURRENCY RISK AND CREDIT RISK;
- THE UNITED STATES GOVERNMENT'S COMMITMENT TO ENSURING THAT FANNIE MAE AND FREDDIE MAC HAVE SUFFICIENT CAPITAL TO PERFORM UNDER GUARANTEES ISSUED AND TO MEET THEIR DEBT OBLIGATIONS;
- ASSUMPTIONS UNDERLYING GOODWILL VALUATIONS;
- THE REALIZATION OF TAX BENEFITS ASSOCIATED WITH CERTAIN LOSSES, TAX PROVISIONS IN CONNECTION WITH THE EARNINGS OF FOREIGN SUBSIDIARIES AND THE ADEQUACY OF TAX AND RELATED INTEREST ESTIMATES IN CONNECTION WITH EXAMINATIONS BY TAX AUTHORITIES;
- CANADIAN EXCISE TAXES FOR SERVICES PROVIDED TO LENDERS;
- NET ACTUARIAL LOSS AND PRIOR SERVICE CREDIT RELATING TO PENSION PLANS;
- EXPECTED BENEFIT AND PENSION PLAN CONTRIBUTIONS, PAYMENTS AND INVESTMENT STRATEGY AND ASSET AND LIABILITY ASSUMPTIONS;
- COMPENSATION COST RECOGNITION ASSOCIATED WITH UNVESTED RESTRICTED STOCK UNITS AND STOCK OPTIONS; AND
- EXPECTED BENEFITS OF THE FORUM SELECTION BYLAW AMENDMENT,

ARE FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THESE FORWARD-LOOKING STATEMENTS MAY CONTAIN THE WORDS "BELIEVE," "ANTICIPATE," "EXPECT," "PLAN," "PREDICT," "ESTIMATE," "PROJECT," "WILL BE," "WILL CONT "WILL LIKELY RESULT," OR OTHER SIMILAR WORDS AND PHRASES.

RISKS AND UNCERTAINTIES EXIST THAT MAY CAUSE RESULTS TO DIFFER MATERIALLY FROM THOSE SET FORTH IN THESE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE THE ANTICIPATED RESULTS TO DIFFER FROM THOSE DESCRIBED IN THE FORWARD-LOOKING STATEMENTS INCLUDE:

- INTEREST RATE FLUCTUATIONS;
- CHANGES IN THE PERFORMANCE OF THE REAL ESTATE MARKETS;
- VOLATILITY IN THE CAPITAL MARKETS;
- UNFAVORABLE ECONOMIC CONDITIONS;
- IMPAIRMENTS IN THE COMPANY'S GOODWILL OR OTHER INTANGIBLE ASSETS;
- FAILURES AT FINANCIAL INSTITUTIONS WHERE THE COMPANY DEPOSITS FUNDS;
- CHANGES IN APPLICABLE GOVERNMENT REGULATIONS;
- HEIGHTENED SCRUTINY BY LEGISLATORS AND REGULATORS OF THE COMPANY'S TITLE INSURANCE AND SERVICES SEGMENT AND CERTAIN OTHER OF THE COMPANY'S BUSINESSES;
- THE CONSUMER FINANCIAL PROTECTION BUREAU'S EXERCISE OF ITS BROAD RULEMAKING AND SUPERVISORY POWERS;
- COMPLIANCE WITH THE CONSUMER FINANCIAL PROTECTION BUREAU'S INTEGRATED DISCLOSURE RULES;
- REGULATION OF TITLE INSURANCE RATES;
- REFORM OF GOVERNMENT-SPONSORED MORTGAGE ENTERPRISES;
- LIMITATIONS ON ACCESS TO PUBLIC RECORDS AND OTHER DATA;

- CHANGES IN RELATIONSHIPS WITH LARGE MORTGAGE LENDERS AND GOVERNMENT-SPONSORED ENTERPRISES;
- CHANGES IN MEASURES OF THE STRENGTH OF THE COMPANY'S TITLE INSURANCE UNDERWRITERS, INCLUDING RATINGS AND STATUTORY CAPITAL AND SURPLUS;
- LOSSES IN THE COMPANY'S INVESTMENT PORTFOLIO;
- EXPENSES OF AND FUNDING OBLIGATIONS TO THE PENSION PLAN;
- MATERIAL VARIANCE BETWEEN ACTUAL AND EXPECTED CLAIMS EXPERIENCE;
- DEFALCATIONS, INCREASED CLAIMS OR OTHER COSTS AND EXPENSES ATTRIBUTABLE TO THE COMPANY'S USE OF TITLE AGENTS;
- ANY INADEQUACY IN THE COMPANY'S RISK MITIGATION EFFORTS;
- SYSTEMS DAMAGE, FAILURES, INTERRUPTIONS AND INTRUSIONS, WIRE TRANSFER ERRORS OR UNAUTHORIZED DATA DISCLOSURES;
- INABILITY TO REALIZE THE BENEFITS OF THE COMPANY'S OFFSHORE STRATEGY;
- INABILITY OF THE COMPANY'S SUBSIDIARIES TO PAY DIVIDENDS OR REPAY FUNDS;
- INABILITY TO REALIZE THE BENEFITS OF, AND CHALLENGES ARISING FROM, THE COMPANY'S ACQUISITION STRATEGY; AND
- OTHER FACTORS DESCRIBED IN THIS ANNUAL REPORT ON FORM 10-K.

THE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE THEY ARE MADE. THE COMPANY DOES NOT UNDERTAKE TO UPDATE FORWARD-LOOKING STATEMENTS TO REFLECT CIRCUMSTANCES OR EVENTS THAT OCCUR AFTER THE DATE THE FORWARD-LOOKING STATEMENTS ARE MADE.

PART I

Item 1. Business

The Company

First American Financial Corporation (the “Company”) was incorporated in the state of Delaware in January 2008 to serve as the holding company of The First American Corporation’s (“TFAC’s”) financial services businesses following the spin-off of those businesses from TFAC (the “Separation”). The Separation was consummated on June 1, 2010, at which time the Company’s common stock was listed on the New York Stock Exchange under the ticker symbol “FAF.” The businesses operated by the Company’s subsidiaries have, in some instances, been in existence since the late 1800s.

The Company has its executive offices at 1 First American Way, Santa Ana, California 92707-5913. The Company’s telephone number is (714) 250-3000.

General

The Company, through its subsidiaries, is engaged in the business of providing financial services through its title insurance and services segment and its specialty insurance segment. The title insurance and services segment provides title insurance, closing and/or escrow services and similar or related services domestically and internationally in connection with residential and commercial real estate transactions. It also provides products, services and solutions involving the use of real property related data, including data derived from its proprietary database, which are designed to mitigate risk or otherwise facilitate real estate transactions. It maintains, manages and provides access to title plant records and images and, in addition, provides banking, trust and investment advisory services. The specialty insurance segment issues property and casualty insurance policies and sells home warranty products. In addition, our corporate function consists of certain financing facilities as well as the corporate services that support our business operations. Financial information regarding these business segments and the corporate function is included in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8. Financial Statements and Supplementary Data” of Part II of this report.

The substantial majority of our business is dependent upon activity in the real estate and mortgage markets, which are cyclical and seasonal. In the current market environment, we are focused on growing our core title insurance and closing services business, building and expanding our data assets to strengthen our core business and offer additional solutions for our customers, and managing complementary businesses in ways that support our core business. We are also focused on continued improvement of our customers’ experiences with our products, services and solutions, and we remain committed to efficiently managing our business to market conditions throughout business cycles.

Title Insurance and Services Segment

Our 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. In 2014, 2013, and 2012 the Company derived 92.0%, 92.9% and 92.5% of its consolidated revenues, respectively, from this segment.

Overview of Title Insurance Industry

In most instances mortgage lenders and purchasers of real estate desire to be protected from loss or damage in the event of defects in the title they acquire. Title insurance is a means of providing such protection.

Title Policies.   Title insurance policies insure the interests of owners or lenders against defects in the title to real property. These defects include adverse ownership claims, liens, encumbrances or other matters affecting title. Title insurance policies generally are issued on the basis of a title report, which is typically prepared after a search of one or more of public records, maps, documents and prior title policies to ascertain the existence of easements, restrictions, rights of way, conditions, encumbrances or other matters affecting the title to, or use of, real property. In certain limited instances, a visual inspection of the property is also made. To facilitate the preparation of title reports, copies and/or abstracts of public records, maps, documents and prior title policies may be compiled and indexed to specific properties in an area. This compilation is known as a “title plant.”

The beneficiaries of title insurance policies usually are real estate buyers and mortgage lenders. A title insurance policy indemnifies the named insured and certain successors in interest against title defects, liens and encumbrances existing as of the date of the policy and not specifically excepted from its provisions. The policy typically provides coverage for the real property mortgage lender in the amount of its outstanding mortgage loan balance and for the buyer in the amount of the purchase price of the property. In some cases the policy might provide insurance in a greater amount, such as where the buyer anticipates constructing improvements on the property. The potential for claims under a title insurance policy issued to a mortgage lender generally ceases upon repayment of the mortgage loan. The potential for claims under a title insurance policy issued to a buyer generally ceases upon the sale or transfer of the insured property.

Before issuing title policies, title insurers typically seek to limit their risk of loss by accurately performing title searches and examinations. The majority of the expenses of a title company typically relate to such searches and examinations, the curing of title defects identified by such searches and examinations, the preparation of preliminary reports or commitments and the maintenance of title plants, as well as related sales and administrative expenses, and not from claim losses as in the case of property and casualty insurers.

The Closing Process.   Title insurance is essential to the real estate closing process in most transactions involving real property mortgage lenders. In a typical residential real estate sale transaction where title insurance is issued, a real estate broker, lawyer, developer, lender, closer or other participant involved in the transaction orders the title insurance on behalf of an insured. Once the order has been placed, a title insurance company or an agent typically conducts a title search to determine the current status of the title to the property. When the search is complete, the title insurer or agent prepares, issues and circulates a commitment or preliminary report to the parties to the transaction. The commitment or preliminary report identifies the conditions, exceptions and/or limitations that the title insurer intends to attach to the policy and identifies items appearing on the title that must be eliminated prior to closing.

The closing or settlement function, sometimes called an escrow in the western United States, is, depending on the local custom in the region, performed by a lawyer, an escrow company or a title insurance company or agent, generally referred to as a “closer.” Once documentation has been prepared and signed, and any required mortgage lender payoff demands are obtained, the transaction closes. The closer typically records the appropriate title documents and arranges the transfer of funds to pay off prior loans and extinguish the liens securing such loans. Title policies are then issued, typically insuring the priority of the mortgage of the real property mortgage lender in the amount of its mortgage loan and the buyer in the amount of the purchase price. The time between the opening of the title order and the issuance of the title policy is usually between 30 and 90 days. Before a closing takes place, however, the closer typically requests that the title insurer or agent provide an update to the commitment to discover any adverse matters affecting title and, if any are found, works with the seller to eliminate them so that the title insurer or agent issues the title policy subject only to those exceptions to coverage which are acceptable to the title insurer, the buyer and the buyer’s lender.

Issuing the Policy: Direct vs. Agency. A title insurance policy can be issued directly by a title insurer or indirectly on behalf of a title insurer through agents, which usually operate independently of the title insurer and often issue policies for more than one insurer. Where the policy is issued by a title insurer, the search is performed by or on behalf of the title insurer, and the premium is collected and retained by the title insurer. Where the policy is issued by an agent, the agent typically performs the search, examines the title, collects the premium and retains a portion of the premium. The agent remits the remainder of the premium to the title insurer as compensation for the insurer bearing the risk of loss in the event a claim is made under the policy and for other services the insurer may provide. The percentage of the premium retained by an agent varies from region to region. A title insurer is obligated to pay title claims in accordance with the terms of its policies, regardless of whether it issues its policy directly or indirectly through an agent. In addition, as part of the policy, a title insurer may issue a closing protection letter that protects a lender from certain misuse of funds by the title insurer’s agent. When a loss to the title insurer occurs under a policy issued through an

agent or a closing protection letter, under certain circumstances the title insurer may seek recovery of all or a portion of the loss from the agent or the agent's insurance carrier.

Premiums. The premium for title insurance is typically due and earned in full when the real estate transaction is closed. Premiums generally are calculated with reference to the policy amount. The premium charged by a title insurer or an agent is subject to regulation in most areas. Such regulations vary from state to state.

Our Title Insurance Operations

Overview. We conduct our title insurance and closing business through a network of direct operations and agents. Through this network, we issue policies in the 49 states that permit the issuance of title insurance policies and the District of Columbia. We also offer title insurance, closing services and similar or related products and services, either directly or through third parties in foreign countries, including Canada, the United Kingdom, Australia and various other established and emerging markets as described in the "International Operations" section below.

Customers, Sales and Marketing. The mortgage markets in the United States and Canada are concentrated. We believe that two institutions, Wells Fargo & Company and JPMorgan Chase & Co., together with their affiliates, originate or are involved in approximately 25% of the mortgages in the United States. Each of these institutions purchases title insurance policies and other products and services from us. These institutions also benefit from products and services which are purchased for their benefit by others, such as title insurance policies purchased by borrowers as a condition to the making of a loan. The refusal of one or more of these or other significant lending institutions to purchase products and services from us or to accept our products and services that are to be purchased for their benefit could have a material adverse effect on the title insurance and services segment.

We distribute our title insurance policies and related products and services through our direct and agent channels. In our direct channel, the distribution of our policies and related products and services occurs through sales representatives located at numerous offices throughout the United States where real estate transactions are handled. Title insurance policies issued and other products and services delivered through this channel are primarily delivered in connection with sales and refinances of residential and commercial real property.

Within the direct channel, our sales and marketing efforts are focused on the primary sources of business referrals. For residential business referred by local or decentralized customers, we market to real estate agents and brokers, mortgage brokers, real estate attorneys, mortgage originators, homebuilders and escrow service providers. For refinance and default related business referred by customers with centrally managed platforms, we market to mortgage originators, servicers, and governmental sponsored enterprises. For the commercial business we market primarily to investors, including real estate investment trusts, insurance companies and asset managers, as well as to law firms, commercial banks, investment banks, mortgage brokers and the owners of commercial real estate. We also market directly to national homebuilders focused on newly constructed residential property. In some instances we may supplement the efforts of our sales force with general marketing. Our marketing efforts emphasize the quality and timeliness of our services, our financial strength, process innovation and our national presence.

Underwriting. Before a title insurance policy is issued, a number of underwriting decisions are made. For example, matters of record revealed during the title search may require a determination as to whether an exception should be taken in the policy. We believe that it is important for the underwriting function to operate efficiently and effectively at all decision-making levels so that transactions may proceed in a timely manner. To perform this function, we have underwriters at the regional, divisional and corporate levels with varying levels of underwriting authority.

Agency Operations. As described above, we also issue title insurance policies through a network of agents. Our agreements with our agents state the conditions under which the agent is authorized to issue title insurance policies on our behalf. The agency agreement also prescribes the circumstances under which the agent may be liable to us if a policy loss occurs. Such agency agreements typically are terminable without cause after a specified notice period has been met and are terminable immediately for cause. As is standard in our industry, our agents typically operate with a substantial degree of independence from us and frequently act as agents for other title insurers. We evaluate the profitability of our agency relationships on an ongoing basis, including a review of premium splits, deductibles and claims. As a result, from time to time we may terminate or renegotiate the terms of some of our agency relationships.

In determining whether to engage an independent agent, we often obtain information about the agent, including the agent's experience and background. We maintain loss experience records for each agent and also maintain agent representatives and agent auditors. Our agents typically are subject to audit or examination. In addition to routine examinations, other examinations may be triggered if certain "warning signs" are evident. Adverse findings in an agency audit may result in various actions, including, if warranted, termination of the agency relationship.

International Operations. We provide products and services in numerous countries outside of the United States, and our international operations accounted for approximately 7.6% of our title insurance and services segment revenues in 2014. Today we have direct operations and a physical presence in several countries, including Canada, the United Kingdom and Australia. Additionally, through local companies we have provided products and services in many other countries. While reliable data are not available, we believe that we have the largest market share for title insurance outside of the United States. The Company's revenues from external customers and long-lived assets are broken down between domestic and foreign operations in Note 22 Segment Financial Information to the consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" of Part II of this report.

Our range of international products and services is designed to lower our clients' risk profiles and reduce their operating costs through enhanced operational efficiencies. In established markets, primarily British Commonwealth countries, we have combined title insurance with customized processing offerings to enhance the speed and efficiency of the mortgage and conveyancing processes. In these markets we also offer products designed to mitigate risk and otherwise facilitate real estate transactions.

Our international operations present risks that may not exist to the same extent in our domestic operations, including those associated with differences in the nature of the products provided, the scope of coverage provided by those products and the manner in which risk is underwritten. Limited claims experience in foreign jurisdictions makes it more difficult to set prices and reserve rates. There may also be risks associated with differences in legal systems and/or unforeseen regulatory changes.

Title Plants. Our collection of title plants constitutes one of our principal assets. A title search is typically conducted by searching the abstracted information from public records or utilizing a title plant holding information abstracted from public records. While public title records generally are indexed by reference to the names of the parties to a given recorded document, our title plants primarily arrange their records on a geographic basis. Because of this difference, title plant records generally may be searched more efficiently, which we believe reduces the risk of errors associated with the search. Many of our title plants also index prior policies, adding to searching efficiency. Certain locations utilize jointly owned plants or utilize a plant under a joint user agreement with other title companies. In addition to these ownership interests, we are in the business of maintaining, managing and providing access to title plant records and images that may be owned by us or other parties. We believe that our title plants, whether wholly or partially owned or utilized under a joint user agreement, are among the most comprehensive in the industry.

Reserves for Claims and Losses. We provide for losses associated with title insurance policies, closing protection letters and other risk based products based upon our historical experience and other factors by a charge to expense when the related premium revenue is recognized. The resulting reserve for incurred but not reported claims, together with the reserve for known claims, reflects management's best estimate of the total costs required to settle all claims reported to us and claims incurred but not reported, and are considered to be adequate for such purpose. Each period the reasonableness of the estimated reserves is assessed; if the estimate requires adjustment, such an adjustment is recorded.

Reinsurance and Coinsurance. We plan to continue our practice of assuming and ceding large title insurance risks through reinsurance. 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. Prior to 2010, our title insurance arrangements primarily involved other industry participants. Beginning in January of 2010, we established a global reinsurance program involving treaty reinsurance provided by a global syndicate of highly rated non-industry reinsurers. Subject to certain limitations, the program generally covers claims made while the program is in effect.

We also serve as a coinsurer in connection with certain commercial transactions. In a coinsurance scenario, two or more insurers are selected by the insured and typically issue separate policies with respect to the subject property, with each coinsurer liable to the extent provided in the policy that it issues.

Competition. The business of providing title insurance and related products and services is highly competitive. The number of competing companies and the size of such companies vary in the different areas in which we conduct business. Generally, in areas of major real estate activity, such as metropolitan and suburban localities, we compete with many other title insurers and agents. Our major nationwide competitors in our principal markets include Fidelity National Financial, Inc., Stewart Title Guaranty Company, Old Republic International Corporation and their affiliates. In addition to these national competitors, small nationwide, regional and local competitors, as well as numerous agency operations throughout the

country, provide aggressive competition on the local level. We are currently the second largest provider of title insurance in the United States, based on the most recent American Land Title Association market share data.

We believe that competition for title insurance, closing services and related products and services is based primarily on the quality, price and timeliness of the preparation and issuance of the insurance policy and the provision of the related products and services. Customer service is an important competitive factor because parties to real estate transactions are usually concerned with time schedules and costs associated with delays in closing transactions. In certain transactions, such as those involving commercial properties, financial strength is also important. As part of our on-going strategy, we regularly evaluate our pricing and agent splits, and based on competitive, market and regulatory conditions and claims history, among other factors, adjust our prices and agent splits as and where appropriate.

Trust and Investment Advisory Services. Our federal savings bank subsidiary offers trust and investment advisory services, deposit services and asset management services. As of December 31, 2014 this company administered fiduciary and custodial assets having a market value in excess of $3.0 billion which includes managed assets of $1.2 billion, had assets of $2.6 billion, deposits of $2.4 billion and stockholder’s equity of $224.8 million.

Lending and Deposit Products. During the third quarter of 2011, we began the multi-year process of winding down the operations of our industrial bank, First Security Business Bank. In 2014, we completed this process by selling the bank’s outstanding loan portfolio, transferring its deposit liabilities to a third-party bank and surrendering its charter.

Specialty Insurance Segment

Property and Casualty Insurance. Our 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. We are licensed to issue policies in all 50 states and the District of Columbia and actively issue policies in 46 states. In certain markets we also offer preferred risk auto insurance to better compete with other carriers offering bundled home and auto insurance. We market our property and casualty insurance business using both direct distribution channels, including cross-selling through our existing closing-service activities, and through a network of independent brokers. Reinsurance is used extensively to limit risk associated with natural disasters such as windstorms, winter storms, wildfires and earthquakes.

Home Warranties. Our 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. Coverage is typically for one year and is renewable annually at the option of the contract holder and upon our approval. Coverage and pricing typically vary by geographic region. Fees for the warranties generally are paid at the closing of the home purchase or directly by the consumer. Renewal premiums may be paid by a number of different options. In addition, under the contract, the holder is responsible for a service fee for each trade call. First year warranties primarily are marketed through real estate brokers and agents, and we also market directly to consumers. We generally sell renewals directly to consumers. Our home warranty business currently operates in 39 states and the District of Columbia.

Corporate

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

Regulation

Many of our subsidiaries are subject to extensive regulation by applicable domestic or foreign regulatory agencies. The extent of such regulation varies based on the industry involved, the nature of the business conducted by the subsidiary (for example, licensed title insurers are subject to a heightened level of regulation compared to underwritten title companies or agencies), the subsidiary's jurisdiction of organization and the jurisdictions in which it operates. In addition, the Company is subject to regulation as both an insurance holding company and a savings and loan holding company.

Our domestic subsidiaries that operate in the title insurance industry or the property and casualty insurance industry are subject to regulation by state insurance regulators. Each of our underwriters, or insurers, is regulated primarily by the insurance department or equivalent governmental body within the jurisdiction of its organization, which oversees compliance with the laws and regulations pertaining to such insurer. For example, our primary title insurance underwriter is a Nebraska corporation and, accordingly, is primarily regulated by the Nebraska Department of Insurance. Insurance regulations

pertaining to insurers typically place limits on, among other matters, the ability of the insurer to pay dividends to its parent company or to enter into transactions with affiliates. They also may require approval of the insurance commissioner prior to a third party directly or indirectly acquiring "control" of the insurer.

In addition, our insurers are subject to the laws of other jurisdictions in which they transact business, which laws typically establish supervisory agencies with broad administrative powers relating to issuing and revoking licenses to transact business, regulating trade practices, licensing agents, approving policy forms, accounting practices and financial practices, establishing requirements pertaining to reserves and capital and surplus as regards policyholders, requiring the deferral of a portion of all premiums in a reserve for the protection of policyholders and the segregation of investments in a corresponding amount, establishing parameters regarding suitable investments for reserves, capital and surplus, and approving rate schedules. The manner in which rates are established or changed ranges from states which promulgate rates, to states where individual companies or associations of companies prepare rate filings which are submitted for approval, to a few states in which rate changes do not need to be filed for approval. In addition, each of our insurers is subject to periodic examination by regulatory authorities both within its jurisdiction of organization as well as the other jurisdictions where it is licensed to conduct business.

Our foreign insurance subsidiaries are regulated primarily by regulatory authorities in the regions, provinces and/or countries in which they operate and may secondarily be regulated by the domestic regulator of First American Title Insurance Company as a part of the First American insurance holding company system. Each of these regions, provinces and countries has established a regulatory framework with respect to the oversight of compliance with its laws and regulations. Therefore, our foreign insurance subsidiaries are generally subject to regulatory review, examination, investigation and enforcement in a similar manner as our domestic insurance subsidiaries, subject to local variations.

Our underwritten title companies, agencies and property and casualty insurance agencies are also subject to certain regulation by insurance regulatory or banking authorities, including, but not limited to, minimum net worth requirements, licensing requirements, statistical reporting requirements, rate filing requirements and marketing restrictions.

In addition to state-level regulation, our domestic subsidiaries that operate in the insurance business, as well as our home warranty subsidiaries and certain other subsidiaries, are subject to regulation by federal agencies, including the Consumer Financial Protection Bureau ("CFPB"). The CFPB has broad authority to regulate, among other areas, the mortgage and real estate markets, including our domestic subsidiaries that operate in the settlement services businesses, in matters pertaining to consumers. This authority includes the enforcement of federal consumer financial laws, including the Real Estate Settlement Procedures Act. The manner in which the CFPB will utilize its rulemaking and supervisory powers is not fully known. In addition to other activities, the CFPB has proposed and implemented regulations related to the simplification of mortgage disclosures and the required delivery of documentation to consumers in connection with the closing of federally-regulated mortgage loans. Extensive efforts have been required to implement these and other CFPB regulations, and may be required to implement future regulations. Regulations issued by the CFPB, or the manner in which it interprets and enforces existing consumer protection laws, also could impact the way in which we conduct our business, require alteration to existing systems, products and services and otherwise increase our expenses or reduce our revenues. Accordingly, the impact of the CFPB on our business is uncertain.

In addition, our home warranty and settlement services businesses are subject to regulation in some states by insurance authorities or other applicable regulatory entities. Our federal savings bank is regulated by the Office of the Comptroller of the Currency, with the Federal Reserve Board supervising its parent holding company, and is subject to regulation by the Federal Deposit Insurance Corporation.

Investment Policies

The Company’s investment portfolio activities such as policy setting, compliance reporting, portfolio reviews, and strategy are overseen by an investment committee made up of certain senior executives. Additionally, certain of the Company’s regulated subsidiaries, including title insurance underwriters, property and casualty insurance companies and our federal savings bank, have established and maintain investment committees to oversee their own investment portfolios. The Company’s investment policies are designed to comply with regulatory requirements and to align the investment portfolio asset allocation with strategic objectives. For example, our federal savings bank is required to maintain at least 65% of its asset portfolio in loans or securities that are secured by real estate. Our federal savings bank currently does not make real estate loans, and therefore fulfills this regulatory requirement through investments in mortgage-backed securities. In addition, applicable law imposes certain restrictions upon the types and amounts of investments that may be made by our regulated insurance subsidiaries.

The Company's investment policies further provide that investments are to be managed to maximize long-term returns consistent with liquidity, regulatory and risk objectives, and that investments should not expose the Company to excessive levels of market, credit, liquidity, and interest rate risks.

As of December 31, 2014, our debt and equity securities portfolio consisted of approximately 90% of fixed income securities. As of that date, approximately 66% of our fixed income investments were held in securities that are United States government-backed or rated AAA, and approximately 97% of the fixed income portfolio were rated or classified as investment grade. Percentages are based on the amortized cost basis of the securities. Credit ratings are based on Standard & Poor's Ratings Services and Moody's Investor Services, Inc. published ratings. If a security was rated differently by both rating agencies, the lower of the two ratings was selected.

In addition to our debt and equity investment securities portfolio, we maintain certain money-market and other short-term investments. We also hold strategic equity investments in companies engaged in our businesses or similar or related businesses.

Employees

As of December 31, 2014, the Company employed 17,103 people on either a part-time or full-time basis.

Available Information

The Company maintains a website, www.firstam.com, which includes financial information and other information for investors, including open and closed title insurance orders (which typically are posted approximately 12 days after the end of each calendar month). The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through the "Investors" page of the website as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission. The Company's website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K, or any other filing with the Securities and Exchange Commission unless the Company expressly incorporates such materials.

Item 1A. Risk Factors

You should carefully consider each of the following risk factors and the other information contained in this Annual Report on Form 10-K. The Company faces risks other than those listed here, including those that are unknown to the Company and others of which the Company may be aware but, at present, considers immaterial. Because of the following factors, as well as other variables affecting the Company's operating results, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.

1. Conditions in the real estate market generally impact the demand for a substantial portion of the Company's products and services and the Company's claims experience

Demand for a substantial portion of the Company's products and services generally decreases as the number of real estate transactions in which its products and services are purchased decreases. The number of real estate transactions in which the Company's products and services are purchased decreases in the following situations:

- when mortgage interest rates are high or rising;

- when the availability of credit, including commercial and residential mortgage funding, is limited; and
- when real estate values are declining.

These circumstances, particularly declining real estate values and the increase in foreclosures that often results therefrom, also tend to adversely impact the Company’s title claims experience.

2. Unfavorable economic conditions may have a material adverse effect on the Company

Uncertainty and negative trends in general economic conditions in the United States and abroad, including significant tightening of credit markets and a general decline in the value of real property, historically have created a difficult operating environment for the Company’s businesses and other companies in its industries. In addition, the Company holds investments

in entities, such as title agencies, settlement service providers and property and casualty insurance companies, and instruments, such as mortgage-backed securities, which may be negatively impacted by these conditions. The Company also owns a federal savings bank into which it deposits some of its own funds and some funds held in trust for third parties. This bank invests those funds and any realized losses incurred will be reflected in the Company's consolidated results. The likelihood of such losses, which generally would not occur if the Company were to deposit these funds in an unaffiliated entity, increases when economic conditions are unfavorable. Depending upon the ultimate severity and duration of any economic downturn, the resulting effects on the Company could be materially adverse, including a significant reduction in revenues, earnings and cash flows, challenges to the Company's ability to satisfy covenants or otherwise meet its obligations under debt facilities, difficulties in obtaining access to capital, challenges to the Company's ability to pay dividends at currently anticipated levels, deterioration in the value of its investments and increased credit risk from customers and others with obligations to the Company.

3. Unfavorable economic or other conditions could cause the Company to write off a portion of its goodwill and other intangible assets

The Company performs an impairment test of the carrying value of goodwill and other indefinite-lived intangible assets annually in the fourth quarter, or sooner if circumstances indicate a possible impairment. Finite-lived intangible assets are subject to impairment tests on a periodic basis. Factors that may be considered in connection with this review include, without limitation, underperformance relative to historical or projected future operating results, reductions in the Company's stock price and market capitalization, increased cost of capital and negative macroeconomic, industry and company-specific trends. These and other factors could lead to a conclusion that goodwill or other intangible assets are no longer fully recoverable, in which case the Company would be required to write off the portion believed to be unrecoverable. Total goodwill and other intangible assets reflected on the Company's consolidated balance sheet as of December 31, 2014 are $1.0 billion. Any substantial goodwill and other intangible asset impairments that may be required could have a material adverse effect on the Company's results of operations and financial condition.

4. Failures at financial institutions at which the Company deposits funds could adversely affect the Company

The Company deposits substantial funds in financial institutions. These funds include amounts owned by third parties, such as escrow deposits. Should one or more of the financial institutions at which deposits are maintained fail, there is no guarantee that the Company would recover the funds deposited, whether through Federal Deposit Insurance Corporation coverage or otherwise. In the event of any such failure, the Company also could be held liable for the funds owned by third parties.

5. Changes in government regulation could prohibit or limit the Company's operations, make it more burdensome to conduct such operations or result in decreased demand for the Company's products and services

Many of the Company's businesses, including its title insurance, property and casualty insurance, home warranty, banking, trust and investment businesses, are regulated by various federal, state, local and foreign governmental agencies. These and other of the Company's businesses also operate within statutory guidelines. The industry in which the Company operates and the markets into which it sells its products are also regulated and subject to statutory guidelines. Changes in the applicable regulatory environment, statutory guidelines or interpretations of existing regulations or statutes, enhanced governmental oversight or efforts by governmental agencies to cause customers to refrain from using the Company's products or services could prohibit or limit its future operations or make it more burdensome to conduct such operations or result in decreased demand for the Company's products and services. The impact of these changes would be more significant if they involve jurisdictions in which the Company generates a greater portion of its title premiums, such as the states of Arizona, California, Florida, Michigan, New York, Ohio, Pennsylvania and Texas and the province of Ontario, Canada. These changes may compel the Company to reduce its

prices, may restrict its ability to implement price increases or acquire assets or businesses, may limit the manner in which the Company conducts its business or otherwise may have a negative impact on its ability to generate revenues, earnings and cash flows.

6. Scrutiny of the Company's businesses and the industries in which it operates by governmental entities and others could adversely affect its operations and financial condition

The real estate settlement services industry, an industry in which the Company generates a substantial portion of its revenue and earnings, is subject to heightened scrutiny by regulators, legislators, the media and plaintiffs' attorneys. Though often directed at the industry generally, these groups may also focus their attention directly on the Company's businesses. In either case, this scrutiny may result in changes which could adversely affect the Company's operations and, therefore, its financial condition and liquidity.

Governmental entities have routinely inquired into certain practices in the real estate settlement services industry to determine whether certain of the Company's businesses or its competitors have violated applicable laws, which include, among others, the insurance codes of the various jurisdictions and the Real Estate Settlement Procedures Act and similar state, federal and foreign laws. Departments of insurance in the various states, federal regulators and applicable regulators in international jurisdictions, either separately or together, also periodically conduct targeted inquiries into the practices of title insurance companies and other settlement services providers in their respective jurisdictions.

Further, from time to time plaintiffs' lawyers may target the Company and other members of the Company's industry with lawsuits claiming legal violations or other wrongful conduct. These lawsuits may involve large groups of plaintiffs and claims for substantial damages. Any of these types of inquiries or proceedings may result in a finding of a violation of the law or other wrongful conduct and may result in the payment of fines or damages or the imposition of restrictions on the Company's conduct which could impact its operations and financial condition. Moreover, these laws and standards of conduct often are ambiguous and, thus, it may be difficult to ensure compliance. This ambiguity may force the Company to mitigate its risk by settling claims or by ending practices that generate revenues, earnings and cash flows.

We increasingly utilize social media to communicate with customers, vendors and other individuals interested in our Company. Information delivered via social media can be easily accessed and rapidly disseminated, and the use of social media by us and other parties could result in reputational harm, decreased customer loyalty or other issues that could diminish the value of the Company's brand or result in significant liability.

7. The breadth of the Consumer Financial Protection Bureau's rulemaking and supervisory powers may increase our costs and require changes in our business

The Consumer Financial Protection Bureau ("CFPB") has broad authority to regulate, among other areas, the mortgage and real estate markets, including our domestic subsidiaries that operate in the settlement services businesses, in matters pertaining to consumers. This authority includes the enforcement of federal consumer financial laws, including the Real Estate Settlement Procedures Act. The manner in which the CFPB will utilize its rulemaking and supervisory powers is not fully known. In addition to other activities, the CFPB has proposed and implemented regulations related to the simplification of mortgage disclosures and the required delivery of documentation to consumers in connection with the closing of federally-regulated mortgage loans. Extensive efforts have been required to implement these and other CFPB regulations, and may be required to implement future regulations. Regulations issued by the CFPB, or the manner in which it interprets and enforces existing consumer protection laws, also could impact the way in which we conduct our business, require alteration to existing systems, products and services and otherwise increase our expenses or reduce our revenues. Accordingly, the impact of the CFPB on our business is uncertain.

8. The CFPB's integrated disclosure rules necessitate significant changes to the Company's business processes, could lead to market disruption and may otherwise adversely affect the Company

Compliance with the CFPB's integrated disclosure rules will require participants in the mortgage market, including the Company, to make significant changes to the manner in which they create, process, and deliver certain disclosures to consumers in connection with mortgage loan applications made on or after August 1, 2015. Readiness for, and compliance with, these rules, requires extensive planning; changes to systems, forms and processes; as well as heightened coordination among market participants, including by settlement service providers, such as the Company and its agents, with lenders and others. While the Company is actively preparing for compliance, the success of the implementation effort is also dependent on the efforts of other market participants. There can be no assurance that the Company, its agents or other market participants will be successful in their implementation efforts, or that consumers

or the CFPB will be satisfied with the manner in which the new rules have been implemented. These changes also could lead to lower mortgage volumes and/or delays in mortgage processing, particularly in the early stages of implementation. Accordingly, in addition to the significant time and expense associated with readiness and compliance with the new integrated disclosure rules, the rules may lead to market disruption, loss of business, unexpected expenses or other adverse effects.

9. Regulation of title insurance rates could adversely affect the Company’s results of operations

Title insurance rates are subject to extensive regulation, which varies from state to state. In many states the approval of the applicable state insurance regulator is required prior to implementing a rate change. This regulation could hinder the Company’s ability to promptly adapt to changing market dynamics through price adjustments, which could adversely affect its results of operations, particularly in a rapidly declining market.

10. Reform of government-sponsored enterprises could negatively impact the Company

Historically, a substantial proportion of home loans originated in the United States were sold to and, generally, resold in a securitized form by, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). As a condition to the purchase of a home loan Fannie Mae and Freddie Mac generally required the purchase of title insurance for their benefit and, as applicable, the benefit of the holders of home loans they may have securitized. The federal government currently is considering various alternatives to reform Fannie Mae and Freddie Mac. The role, if any, that these enterprises or other enterprises fulfilling a similar function will play in the mortgage process following the adoption of any reforms is not currently known. The timing of the adoption and, thereafter, the implementation of the reforms is similarly unknown. Due to the significance of the role of these enterprises, the mortgage process itself may substantially change as a result of these reforms and related discussions. It is possible that these entities, as reformed, or the successors to these entities may require changes to the way title insurance is priced or delivered, changes to standard policy terms or other changes which may make the title insurance business less profitable. These reforms may also alter the home loan market, such as by causing higher mortgage interest rates due to decreased governmental support of mortgage-backed securities. These consequences could be materially adverse to the Company and its financial condition.

11. The Company may find it difficult to acquire necessary data

Certain data used and supplied by the Company are subject to regulation by various federal, state and local regulatory authorities. Compliance with existing federal, state and local laws and regulations with respect to such data has not had a material adverse effect on the Company’s results of operations, financial condition or liquidity to date. Nonetheless, federal, state and local laws and regulations in the United States designed to protect the public from the misuse of personal information in the marketplace and adverse publicity or potential litigation concerning the commercial use of such information may affect the Company’s operations and could result in substantial regulatory compliance expense, litigation expense and a loss of revenue. The suppliers of data to the Company face similar burdens. As a result of these and other factors, the Company may find it financially burdensome to acquire necessary data.

12. Changes in the Company’s relationships with large mortgage lenders or government–sponsored enterprises could adversely affect the Company

The mortgage markets in the United States and Canada are concentrated. Due to the consolidated nature of the industry, the Company derives a significant percentage of its revenues from a relatively small base of lenders, and their borrowers, which enhances the negotiating power of these lenders with respect to the pricing and the terms on which they purchase the Company’s products and other matters. Similarly, government-sponsored enterprises, because of their significant role in the mortgage process, have significant influence over the Company and other service providers. These circumstances could adversely affect the Company’s revenues and profitability. Changes in the Company’s relationship with any of these lenders or government-sponsored enterprises, the loss of all or a portion of the business the Company derives from these parties or any refusal of these parties to accept the Company’s products and services could have a material adverse effect on the Company.

13. A downgrade by ratings agencies, reductions in statutory capital and surplus maintained by the Company’s title insurance underwriters or a deterioration in other measures of financial strength may negatively affect the Company’s results of operations and competitive position

Certain of the Company’s customers use measurements of the financial strength of the Company’s title insurance underwriters, including, among others, ratings provided by ratings agencies and levels of statutory capital and surplus maintained by those underwriters, in determining the amount of a policy they will accept and the amount of

reinsurance required. Each of the major ratings agencies currently rates the Company's title insurance operations. The Company's principal title insurance underwriter's financial strength ratings are "A3" by Moody's Investor Services, Inc., "A" by Fitch Ratings Ltd., "A-" by Standard & Poor's Ratings Services and "A-" by A.M. Best Company, Inc. These ratings provide the agencies' perspectives on the financial strength, operating performance and cash generating ability of those operations. These agencies continually review these ratings and the ratings are subject to change. Statutory capital and surplus, or the amount by which statutory assets exceed statutory liabilities, is also a measure of financial strength. The Company's principal title insurance underwriter maintained $971.3 million of total statutory capital and surplus as of December 31, 2014. Accordingly, if the ratings or statutory capital and surplus of these title insurance underwriters are reduced from their current levels, or if there is a deterioration in other measures of financial strength, the Company's results of operations, competitive position and liquidity could be adversely affected.

14. The Company's investment portfolio is subject to certain risks and could experience losses

The Company maintains a substantial investment portfolio, primarily consisting of fixed income securities (including mortgage-backed securities). The investment portfolio also includes money-market and other short-term investments, as well as preferred and common stock. Securities in the Company's investment portfolio are subject to certain economic and financial market risks, such as credit risk, interest rate (including call, prepayment and extension) risk and/or liquidity risk. The risk of loss associated with the portfolio is increased during periods of instability in credit markets and economic conditions. If the carrying value of the investments exceeds the fair value, and the decline in fair value is deemed to be other-than-temporary, the Company will be required to write down the value of the investments, which could have a material adverse effect on the Company's results of operations, statutory surplus and financial condition.

15. The Company's pension plan is currently underfunded and pension expenses and funding obligations could increase significantly as a result of decreases in interest rates or weak performance of financial markets and its effect on plan assets

The Company is responsible for the obligations of its defined benefit pension plan, which it assumed from its former parent, The First American Corporation, on June 1, 2010 in connection with the spin-off transaction which was consummated on that date. The plan was closed to new entrants effective December 31, 2001 and amended to "freeze" all benefit accruals as of April 30, 2008. The Company's future funding obligations for this plan depend upon, among other factors, the future performance of assets held in trust for the plan and interest rates. The pension plan was underfunded as of December 31, 2014 by $111.3 million and the Company may need to make significant contributions to the plan. In addition, pension expenses and funding requirements may also be greater than currently anticipated if the market values of the assets held by the pension plan decline or if the other assumptions regarding plan earnings, expenses and interest rates require adjustment. The Company's obligations under this plan could have a material adverse effect on its results of operations, financial condition and liquidity.

16. Actual claims experience could materially vary from the expected claims experience reflected in the Company's reserve for incurred but not reported claims

The Company maintains a reserve for incurred but not reported ("IBNR") claims pertaining to its title, escrow and other insurance and guarantee products. The majority of this reserve pertains to title insurance policies, which are long-duration contracts with the majority of the claims reported within the first few years following the issuance of the policy. Generally, 70% to 80% 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 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 $98.7 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.

17. The issuance of the Company's title insurance policies and related activities by title agents, which operate with substantial independence from the Company, could adversely affect the Company

The Company's title insurance subsidiaries issue a significant portion of their policies through title agents that operate with a substantial degree of independence from the Company. While these title agents are subject to certain contractual limitations that are designed to limit the Company's risk with respect to their activities, there is no guarantee that the agents will fulfill their contractual obligations to the Company. In addition, regulators are increasingly seeking to hold the Company responsible for the actions of these title agents and, under certain circumstances, the Company may be held liable directly to third parties for actions (including defalcations) or omissions of these agents. As a result, the Company's use of title agents could result in increased claims on the Company's policies issued through agents and an increase in other costs and expenses.

18. The Company's risk mitigation efforts may prove inadequate

The Company assumes risks in the ordinary course of its business, including through the issuance of title insurance policies and the provision of other products and services. The Company mitigates these risks through a number of different means, including the implementation of underwriting policies and procedures and other mechanisms for assessing risk. However, underwriting of title insurance policies and other risk-assumption decisions frequently involve a substantial degree of individual judgment. The Company's risk mitigation efforts or the reliability of any necessary judgment may prove

inadequate, especially in situations where the Company or individuals involved in risk taking decisions are encouraged by customers or others, or because of competitive pressures, to assume risks or to expeditiously make risk determinations. This circumstance could have an adverse effect on the Company's results of operations, financial condition and liquidity.

19. Systems damage, failures, interruptions and intrusions, wire transfer errors and unauthorized data disclosures may disrupt the Company's business, harm the Company's reputation, result in material claims for damages or otherwise adversely affect the Company

The Company uses computer systems to receive, process, store and transmit business information, including highly sensitive non-public personal information as well as data from suppliers and other information upon which its business relies. It also uses these systems to manage substantial cash, investment assets, bank deposits, trust assets and escrow account balances on behalf of the Company and its customers, among other activities. Many of the Company's products, services and solutions involving the use of real property related data are fully reliant on its systems and are only available electronically. Accordingly, for a variety of reasons, the integrity of the Company's computer systems and the protection of the information that resides on those systems are critically important to its successful operation. The Company's core computer systems are primarily located in data centers maintained and managed by a third party.

The Company's computer systems and systems used by its agents, suppliers and customers have been subject to, and are likely to continue to be the target of, computer viruses, cyber attacks, phishing attacks and other malicious attacks. These attacks have increased in frequency and sophistication in recent years, and could expose the Company to system-related damage, failures, interruptions, and other negative events. Further, certain other potential causes of system damage or other negative system-related events are wholly or partially beyond the Company's control, such as natural disasters, vendor failures to satisfy service level requirements and power or telecommunications failures. These incidents, regardless of their underlying causes, could disrupt the Company's business and could also result in the loss or unauthorized release, gathering, monitoring or destruction of confidential, proprietary and other information pertaining to the Company, its customers, employees, agents or suppliers.

Certain laws and contracts the Company has entered into require it to notify various parties, including consumers or customers, in the event of certain actual or potential data breaches or systems failures. These notifications can result, among other things, in the loss of customers, lawsuits, adverse publicity, diversion of management's time and energy, the attention of regulatory authorities, fines and disruptions in sales. Further, the Company's financial institution customers have obligations to safeguard their computer systems and sensitive information and it may be bound contractually and/or by regulation to comply with the same requirements. If the Company fails to comply with applicable regulations and contractual requirements, it could be exposed to lawsuits, governmental proceedings or the imposition of fines, among other consequences.

The Company also relies on its systems, employees and domestic and international banks to transfer funds. These transfers are susceptible to user input error, fraud, system interruptions, incorrect processing and similar errors that could result in lost funds.

Accordingly, any inability to prevent or adequately respond to the issues described above could disrupt the Company's business, inhibit its ability to retain existing customers or attract new customers and/or result in financial losses, litigation, increased costs or other adverse consequences which could be material to the Company.

20. The Company may not be able to realize the benefits of its offshore strategy

The Company utilizes lower cost labor in foreign countries, such as India and the Philippines, among others. These countries are subject to relatively high degrees of political and social instability and may lack the infrastructure to withstand natural disasters. Such disruptions could decrease efficiency and increase the Company's costs in these countries. Weakness of the United States dollar in relation to the currencies used in these foreign countries may also reduce the savings achievable through this strategy. Furthermore, the practice of utilizing labor based in foreign countries is subject to heightened scrutiny in the United States and, as a result, some of the Company's customers may require it to use labor based in the United States. Laws or regulations that require the Company to use labor based in the United States or effectively increase the cost of the Company's foreign labor also could be enacted. The Company may not be able to pass on these increased costs to its customers.

21. Acquisitions may have an adverse effect on our business

The Company has in the past acquired, and is expected to acquire in the future, other businesses. When businesses are acquired, the Company may not be able to integrate or manage these businesses in such a manner as to realize the anticipated

synergies or otherwise produce returns that justify the investment. Acquired businesses may subject the Company to increased regulatory or compliance requirements. The Company may not be able to successfully retain employees of acquired businesses or integrate them, and could lose customers, suppliers or other partners as a result of the acquisitions. For these and other reasons, including changes in market conditions, the projections used to value the acquired businesses may prove inaccurate. In addition, the Company might incur unanticipated liabilities from acquisitions. These and other factors related to acquisitions could have a material adverse effect on the Company’s results of operations, financial condition and liquidity. The Company’s management also will continue to be required to dedicate substantial time and effort to the integration of its acquisitions. These efforts could divert management’s focus and resources from other strategic opportunities and operational matters.

22. As a holding company, the Company depends on distributions from its subsidiaries, and if distributions from its subsidiaries are materially impaired, the Company’s ability to declare and pay dividends may be adversely affected; in addition, insurance and other regulations limit the amount of dividends, loans and advances available from the Company’s insurance subsidiaries

The Company is a holding company whose primary assets are investments in its operating subsidiaries. The Company’s ability to pay dividends is dependent on the ability of its subsidiaries to pay dividends or repay funds. If the Company’s operating subsidiaries are not able to pay dividends or repay funds, the Company may not be able to fulfill parent company obligations and/or declare and pay dividends to its stockholders. Moreover, pursuant to insurance and other regulations under which the Company’s insurance subsidiaries operate, the amount of dividends, loans and advances available is limited. As of December 31, 2014, under such regulations, the maximum amount of dividends, loans and advances available in 2015 from these insurance subsidiaries, without prior approval from applicable regulators, was $570.0 million.

23. Certain provisions of the Company’s bylaws and certificate of incorporation may reduce the likelihood of any unsolicited acquisition proposal or potential change of control that the Company’s stockholders might consider favorable

The Company’s bylaws and certificate of incorporation contain provisions that could be considered “anti-takeover” provisions because they make it harder for a third-party to acquire the Company without the consent of the Company’s incumbent board of directors. Under these provisions:

- election of the Company’s board of directors is staggered such that only one-third of the directors are elected by the stockholders each year and the directors serve three year terms prior to reelection;
- stockholders may not remove directors without cause, change the size of the board of directors or, except as may be provided for in the terms of preferred stock the Company issues in the future, fill vacancies on the board of directors;
- stockholders may act only at stockholder meetings and not by written consent;
- stockholders must comply with advance notice provisions for nominating directors or presenting other proposals at stockholder meetings; and
- the Company’s board of directors may without stockholder approval issue preferred shares and determine their rights and terms, including voting rights, or adopt a stockholder rights plan.

While the Company believes that they are appropriate, these provisions, which may only be amended by the affirmative vote of the holders of approximately 67% of the Company’s issued voting shares, could have the effect of discouraging an unsolicited acquisition proposal or delaying, deferring or preventing a change of control transaction that might involve a premium price or otherwise be considered favorably by the Company’s stockholders.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We maintain our executive offices at MacArthur Place in Santa Ana, California. This office campus consists of five office buildings, a technology center and a two-story parking structure, totaling approximately 490,000 square feet. Three office buildings, totaling approximately 210,000 square feet, and the fixtures thereto and underlying land, are subject to a deed of trust and security agreement securing payment of a promissory note evidencing a loan made in October 2003, to our principal title insurance subsidiary in the original sum of $55.0 million. This loan is payable in monthly installments of principal and interest, is fully amortizing and matures November 1, 2023. The outstanding principal balance of this loan was $31.6 million as of December 31, 2014. The technology center referred to above is maintained by a third party and houses technical infrastructure belonging to a third party, in addition to the physically segregated technical infrastructure belonging to the Company.

One of our subsidiaries in the title insurance and services segment leases an aggregate of approximately 127,000 square feet of office space in three buildings of the International Technology Park in Bangalore, India pursuant to various lease agreements. All of the space is leased pursuant to agreements that expire in 2017.

The office facilities we occupy are, in all material respects, in good condition and adequate for their intended use.

Item 3. Legal Proceedings

The Company and its subsidiaries are parties to a number of non-ordinary course lawsuits. These lawsuits frequently 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 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 minimis). 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

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- Levine v. First American Title Insurance Company, filed on February 26, 2009 and pending in the United States District Court for the Eastern District 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 and Raffone. The class originally certified in Slapikas was subsequently decertified. 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 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.

- 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.

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, denied home warranty claims, failed to timely file certain documents, and gave items of value to developers, builders and others as inducements to refer business in violation of certain 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,
- Chassen v. First American Financial Corporation, et al., filed on January 22, 2009 and pending in the United States District Court of New Jersey,
- DeLaurentis v. Data Tree Information Services LLC, filed on January 16, 2015 and pending in the United States District Court for the Southern District of New York,
- 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, et al., filed on June 15, 2006 and pending in the Superior Court of the State of California, County of Los Angeles,
- 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,

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Snyder v. First American Financial Corporation, et al., filed on June 21, 2014 and pending in the United States District Court for the District of Colorado,

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- 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, and
- In re First American Home Buyers Protection Corporation, consolidated on October 9, 2014 and pending in the United States District Court for the Southern District of California.

All of these lawsuits, except Kaufman and Kirk, 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 has concluded, plaintiff has filed a notice of appeal and the Company filed a cross appeal. 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.

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.

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.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock Market Prices and Dividends

The Company's common stock trades on the New York Stock Exchange (ticker symbol FAF). The approximate number of record holders of common stock on February 18, 2015, was 2,654.

High and low stock prices and dividends declared for 2014 and 2013 are set forth in the table below.

	2014		2013	
Period	High-low range	Cash dividends	High-low range	Cash dividends
Quarter Ended March 31	$24.81-28.19	$ 0.12	$22.78-25.82	$ 0.12
Quarter Ended June 30	$25.45-28.92	$ 0.24	$20.39-27.40	$ 0.12
Quarter Ended September 30	$26.82-28.67	$ 0.24	$20.85-24.71	$ 0.12
Quarter Ended December 31	$26.20-34.51	$ 0.24	$23.60-28.57	$ 0.12

We expect that the Company will continue to pay quarterly cash dividends at or above the current level. The timing, declaration and payment of future dividends, however, falls within the discretion of the Company's board of directors and will depend upon many factors, including the Company's financial condition and earnings, the capital requirements of our businesses, industry practice, restrictions imposed by applicable law and any other factors the board of directors deems relevant from time to time. In addition, the ability to pay dividends also is potentially affected by the restrictions described in Note 2 Statutory Restrictions on Investments and Stockholders' Equity to the consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" of Part II of this report.

Unregistered Sales of Equity Securities

During the year ended December 31, 2014, the Company did not issue any unregistered common stock.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Pursuant to the share repurchase program initially announced by the Company on March 16, 2011 and expanded on March 11, 2014, which program has no expiration date, the Company may repurchase up to $250.0 million of the Company's issued and outstanding common stock. During the quarter ended December 31, 2014, the Company did not repurchase any shares under this plan. Cumulatively the Company has repurchased $67.1 million (including commissions) of its shares and has the authority to repurchase an additional $182.9 million (including commissions) under the plan.

Stock Performance Graph

The following performance graph and related information shall not be deemed “soliciting material” or “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent that it is specifically incorporated by reference into such filing.

The following graph compares the cumulative total stockholder return on the Company’s common stock with the corresponding cumulative total returns of the Russell 2000 Financial Services Index and a peer group index for the period from June 2, 2010, the first day the Company’s common stock traded in the regular way market on the New York Stock Exchange, through December 31, 2014. The comparison assumes an investment of $100 on June 2, 2010 and reinvestment of dividends. This historical performance is not indicative of future performance.

Comparison of Cumulative Total Return

	First American Financial Corporation (FAF) (1)	Custom Peer Group (1)(2)	Russell 2000 Financial Services Index (1)
June 2, 2010	$ 100	$ 100	$ 100
December 31, 2010	$ 104	$ 106	$ 113
December 31, 2011	$ 90	$ 116	$ 109
December 31, 2012	$ 174	$ 134	$ 132
December 31, 2013	$ 208	$ 191	$ 173
December 31, 2014	$ 258	$ 210	$ 189

(1) As calculated by Bloomberg Financial Services, to include reinvestment of dividends.

(2) The peer group consists of the following companies: American Financial Group, Inc.; Assurant, Inc.; Cincinnati Financial Corporation; Fidelity National Financial, Inc., together with its tracking stock; The Hanover Insurance Group, Inc.; Kemper Corporation; Mercury General Corporation; Old Republic International Corp.; White Mountains Insurance Group Ltd.; and W.R. Berkley Corporation each of which operates in a business similar to a business operated by the Company. Lender Processing Services, Inc. was removed from the peer group for all periods due to its acquisition by Fidelity National Financial, Inc. in January 2014. The compensation committee of the Company utilizes the compensation practices of these companies as benchmarks in setting the compensation of its executive officers.

Item 6. Selected Financial Data

The selected historical consolidated financial data for First American Financial Corporation (the "Company") as of and for the five-year period ended December 31, 2014, have been derived from the Company's consolidated financial statements. The selected historical consolidated financial data should be read in conjunction with the Consolidated Financial Statements and Notes thereto, "Item 1—Business," and "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Company became a publicly traded company in connection with its spin-off from its prior parent, The First American Corporation ("TFAC"), on June 1, 2010 (the "Separation"). The Company's historical financial statements prior to June 1, 2010 have been derived from the consolidated financial statements of TFAC and represent carve-out stand-alone combined financial statements.

First American Financial Corporation and Subsidiary Companies

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands, except percentages, per share amounts and employee data)				
Revenues	$4,677,949	$4,956,077	$4,541,821	$3,820,574	$3,906,612
Net income	$234,215	$187,064	$301,728	$78,579	$128,956
Net income attributable to noncontrolling interests	$681	$697	$687	$303	$1,127
Net income attributable to the Company	$233,534	$186,367	$301,041	$78,276	$127,829
Total assets	$7,666,100	$6,559,183	$6,077,626	$5,371,655	$5,821,612
Notes and contracts payable	$587,337	$310,285	$229,760	$299,975	$293,817
Stockholders' equity	$2,572,917	$2,453,049	$2,348,065	$2,028,600	$1,980,017
Return on average stockholders' equity	9.3 %	7.8 %	13.8 %	3.9 %	6.4 %
Dividends on common shares	$89,939	$51,324	$37,612	$24,784	$18,553
Per share of common stock (Note A)—					
Net income attributable to the Company:					
Basic	$2.18	$1.74	$2.83	$0.74	$1.22
Diluted	$2.15	$1.71	$2.77	$0.73	$1.20
Stockholders' equity	$23.93	$23.16	$21.90	$19.24	$18.96
Cash dividends declared	$0.84	$0.48	$0.36	$0.24	$0.18
Number of common shares outstanding (Note B)—					
Weighted average during the year:					
Basic	106,884	106,991	106,307	105,197	104,134
Diluted	108,688	109,102	108,542	106,914	106,177
End of year	107,541	105,900	107,239	105,410	104,457
Other Operating Data (unaudited):					
Title orders opened (Note C)	1,156	1,385	1,635	1,249	1,469
Title orders closed (Note C)	816	1,103	1,192	913	1,079
Number of employees (Note D)	17,103	17,292	17,312	16,117	16,879

Note A—Per share information relating to net income is based on weighted-average number of shares outstanding for the years presented. Per share information relating to stockholders' equity is based on shares outstanding at the end of each year.

Note B—Number of common shares outstanding for 2010 was computed using the number of shares of common stock outstanding immediately following the Separation, as if such shares were outstanding for the entire period prior to the Separation.

Note C—Title order volumes are those processed by the direct domestic title operations of the Company and do not include orders processed by agents.

Note D—Number of employees is based on actual employee headcount.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis contains certain financial measures that are not presented in accordance with generally accepted accounting principles ("GAAP"), including adjusted information and other revenues, adjusted personnel costs, adjusted other operating expenses and adjusted depreciation and amortization expense, in each case excluding the effects of recent acquisitions. The Company is presenting these non-GAAP financial measures because they provide the Company's management and readers of this Annual Report on Form 10-K with additional insight into the operational performance of the Company relative to earlier periods. The Company does not intend for these non-GAAP financial measures to be a substitute for any GAAP financial information. In this Annual Report on Form 10-K, these non-GAAP financial measures have been presented with, and reconciled to, the most directly comparable GAAP financial measures. Readers of this Annual Report on Form 10-K should use these non-GAAP financial measures only in conjunction with the comparable GAAP financial measures.

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.

Reportable Segments

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.

Critical Accounting Estimates

The preparation of financial statements in accordance with GAAP requires the application of accounting policies that often involve a significant degree of judgment. The Company's management considers the accounting policies described below to be the most dependent on the application of estimates and assumptions in preparing the Company's consolidated financial statements. See Note 1 Description of the Company to the consolidated financial statements for a more detailed description of the Company's significant accounting policies.

Provision for policy losses. 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.

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, 70% to 80% 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 $98.7 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 adjusted for estimated future increases in costs.

A summary of the Company's loss reserves is as follows:

(in thousands, except percentages)	December 31, 2014		December 31, 2013	
Known title claims	$165,330	16.3 %	$135,478	13.3 %
Incurred but not reported claims	802,069	79.3 %	840,104	82.5 %
Total title claims	967,399	95.6 %	975,582	95.8 %
Non-title claims	44,381	4.4 %	42,783	4.2 %
Total loss reserves	$1,011,780	100.0%	$1,018,365	100.0%

Activity in the reserve for known title claims is summarized as follows:

	December 31,		
	2014	2013	2012
	(in thousands)		
Balance at beginning of year	$135,478	$133,070	$162,019
Provision transferred from IBNR title claims related to:			
Current year	29,939	17,720	18,592
Prior years	274,481	280,373	233,258
	304,420	298,093	251,850
Payments, net of recoveries, related to:			
Current year	22,272	15,355	16,044
Prior years	249,851	280,627	269,166
	272,123	295,982	285,210
Other	(2,445)	297	4,411
Balance at end of year	$165,330	$135,478	$133,070

The provision transferred from IBNR title claims related to current year increased by $12.2 million in 2014 from 2013 and decreased by $0.9 million in 2013 from 2012 and payments, net of recoveries, related to current year increased by $6.9 million in 2014 from 2013 and decreased by $0.7 million in 2013 from 2012, reflecting variability in claims volumes characteristic of a policy year during its first year of development. In addition, 2014 experienced a higher level of fraud losses when compared to 2013 and 2012.

The provision transferred from IBNR title claims related to prior years decreased by $5.9 million and payments, net of recoveries, related to prior years decreased by $30.8 million in 2014 from 2013. The 11.0% decline in payments exceeded the 2.1% decline in provision transferred primarily due to the timing of a large commercial claim settlement payment. The provision for the large commercial claim was transferred from IBNR during 2014, while the settlement payment occurred in 2015.

The provision transferred from IBNR title claims related to prior years increased by $47.1 million and payments, net of recoveries, related to prior years increased by $11.5 million in 2013 from 2012. These increases were primarily attributable to increased domestic lenders claims for policy years 2004 through 2008 and, to a lesser extent, large commercial claims above expected levels, mainly from mechanics liens. The increase in domestic lenders claims 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.

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

	December 31,		
	2014	2013	2012
	(in thousands)		
Balance at beginning of year	$840,104	$805,430	$816,603
Provision related to:			
Current year	190,971	196,275	173,335
Prior years	62,159	148,454	62,620
	253,130	344,729	235,955
Provision transferred to known title claims related to:			
Current year	29,939	17,720	18,592
Prior years	274,481	280,373	233,258
	304,420	298,093	251,850
Other	13,255	(11,962)	4,722
Balance at end of year	$802,069	$840,104	$805,430

The provision related to current year decreased by $5.3 million, or 2.7%, in 2014 from 2013. This decrease was attributable to a 7.6% decline in title premiums and escrow fees in 2014 from 2013, partly offset by a higher current year loss rate in 2014 when compared to 2013. The current year loss rate in 2014 was 5.3% compared to 5.0% in 2013.

The provision related to current year increased by $22.9 million, or 13.2%, in 2013 from 2012. This increase was attributable to a 12.9% increase in title premiums and escrow fees in 2013 from 2012.

For further discussion of title provision recorded in 2014, 2013 and 2012, see Results of Operations, pages 37 and 38.

Fair value of investment portfolio. The Company categorizes 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 for inputs used in determining fair value maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. The hierarchy level assigned to each security in the Company's available-for-sale portfolio was based on management's assessment of the transparency and reliability of the inputs used to estimate the fair values at the measurement date. See Note 15 Fair Value Measurements to the consolidated financial statements for a more detailed description of the three-level hierarchy and a description for each level.

The valuation techniques and inputs used to estimate the fair value of the Company's debt and equity securities are summarized as follows:

Fair value of 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 and there were fewer observable inputs available requiring the pricing services to use more judgment in determining the fair value of the securities, they were classified 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.

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, 2014, 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, 2014, 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, 2014 in estimating the cash flows expected to be collected for these securities.

	Weighted average	Range
Prepayment speeds	10.0 %	8.8%-14.0%
Default rates	2.5 %	1.8%-3.7 %
Loss severity	18.7 %	3.6%-28.5%

As a result of the Company's security-level review, the Company recognized $1.7 million and $3.6 million of other-than-temporary impairments considered to be credit related on its non-agency mortgage-backed securities in earnings for the years ended December 31, 2014 and 2012, respectively. The Company did not recognize any other-than-temporary impairments considered to be credit related in 2013. It is possible that the Company could recognize additional other-than-temporary impairment losses on securities it owns at December 31, 2014 if future events or information cause it to determine that a decline in fair value is other-than-temporary.

Fair value of equity securities

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

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 fair 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. The Company did not record any other-than-temporary impairment losses related to its equity securities for the years ended December 31, 2014, 2013 and 2012.

Litigation and regulatory contingencies. The Company and its subsidiaries are parties to a number of ongoing routine and non-ordinary course legal proceedings. For those 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 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. 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. 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.

Business Combinations. The Company allocates the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions, especially with respect to intangible assets.

Critical estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows, useful lives, and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Other estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed.

Impairment assessment for 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.

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. 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.

The Company elected to perform qualitative assessments for 2014 and 2013, the results of which supported the conclusion that the fair values of the Company's reporting units were not more likely than not less than their carrying amounts and, therefore, a quantitative assessment was not considered necessary. For 2012, the Company performed a quantitative assessment and determined that the fair values of its reporting units exceeded their carrying amounts and, therefore, no additional analysis was required. As a result of these assessments, the Company did not record any goodwill impairment losses for 2014, 2013 or 2012.

Impairment assessment for other intangible assets. Management uses estimated future cash flows (undiscounted and excluding interest) to measure the recoverability of intangible assets with finite lives, whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. If the undiscounted cash flow analysis indicates that the carrying amount is not recoverable, an impairment loss is recorded for the excess of the carrying amount over its fair value.

The Company's other indefinite-lived intangible assets consist of licenses which are not amortized but rather assessed for impairment by comparing the fair value of the license with its carrying value at least annually or when an indicator of potential impairment has occurred. Management's impairment assessment may involve calculating the fair value by using a discounted cash flow analysis or through a market approach valuation. If the fair value of the asset exceeds its carrying amount, the asset is not considered impaired and no additional analysis is required. However, if the carrying amount is greater than the fair value, an impairment loss is recorded equal to the excess. The impairment loss establishes a new basis and the subsequent reversal of impairment losses is not permitted.

Impairment of equity method investments in affiliates. The carrying value of equity method investments in affiliates is written down, or impaired, to fair value when a decline in value is considered to be other-than-temporary. In making the determination as to whether an individual investment in an 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 the Company), 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. The Company recognized impairment losses of $22.5 million, $7.8 million and $7.1 million on its equity method investments in 2014, 2013 and 2012, respectively.

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.

Depreciation and amortization lives for assets. Management is required to estimate the useful lives of several asset classes, including property and equipment, internally developed software and other intangible assets. The estimation

of useful lives requires a significant amount of judgment related to matters such as future changes in technology, legal issues related to allowable uses of data and other matters.

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 assumptions that have had the most significant impact to net periodic costs are the discount rate and expected long-term rate of return on plan assets. The discount rate assumption 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 assets of the defined benefit pension plans 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. See Note 14 Employee Benefit Plans to the consolidated financial statements for a further description of the expected long-term rate of return on plan assets as well as asset allocation targets. Additionally, the Company adopted updated mortality tables published by the Society of Actuaries in October 2014. The revised RP-2014 tables reflect substantial life expectancy improvements relative to the last tables published in 2000.

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

	December 31,	
	2014	2013
Defined benefit pension plans		
Discount rate	4.97 %	4.18 %
Rate of return on plan assets	6.50 %	6.50 %
Unfunded supplemental benefit plans		
Discount rate	4.80 %	3.91 %

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

	December 31,	
	2014	2013
Defined benefit pension plans		
Discount rate	4.07 %	4.97 %
Unfunded supplemental benefit plans		
Discount rate	4.00 %	4.80 %

Recently Adopted Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (“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. The adoption of the guidance had no impact on the Company’s consolidated financial statements.

Pending Accounting Pronouncements

In June 2014, the FASB issued updated guidance intended to eliminate the diversity in practice regarding share-based payment awards that include terms which provide for a performance target that affects vesting being achieved after the requisite service period. The new standard requires that a performance target which affects vesting and could be achieved after the requisite service period be treated as a performance condition that affects vesting and should not be reflected in estimating the grant-date fair value. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. The Company expects the adoption of this guidance to have no impact on its consolidated financial statements.

In May 2014, the FASB issued updated guidance for recognizing revenue from contracts with customers to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within and across industries, and across capital markets. The new revenue standard contains principles that an entity will apply to determine the measurement of revenue and the timing of recognition. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. Revenue from insurance contracts is not within the scope of this guidance. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption prohibited. The Company is currently assessing the impact of the new guidance on its consolidated financial statements.

In April 2014, the FASB issued updated guidance which changes the criteria for determining which disposals are required to be presented as discontinued operations and modifies related disclosure requirements. The updated guidance is

effective for interim and annual reporting periods beginning after December 31, 2014, with early adoption permitted. The Company expects the adoption of this guidance to have no impact on its consolidated financial statements.

Results of Operations

Overview

A substantial portion of the revenues for the Company's title insurance and services segment results from the sale and refinancing of residential and commercial real estate. In the Company's specialty insurance segment, revenues associated with the initial year of coverage in both the home warranty and property and casualty operations are impacted by volatility in residential purchase transactions. Traditionally, the greatest volume of real estate activity, particularly residential purchase activity, has occurred in the spring and summer months. However, changes in interest rates, as well as other changes in general economic conditions in the United States and abroad, can cause fluctuations in the traditional pattern of real estate activity.

The Company's total revenues for the year ended December 31, 2014 were $4.7 billion, which reflected a decrease of $0.3 billion, or 5.6%, when compared with $5.0 billion for the year ended December 31, 2013. This decline was primarily attributable to the significant decline in refinance activity during 2014 as a result of increases in mortgage interest rates, which was partially offset by increased revenues from residential purchase transactions and commercial business. Revenues from refinance transactions were down 43.2% and revenues from residential purchase transactions and commercial business were up 4.5% and 9.0%, respectively, in 2014 when compared to 2013.

According to the Mortgage Bankers Association's January 20, 2015 Mortgage Finance Forecast (the "MBA Forecast"), residential mortgage originations in the United States (based on the total dollar value of the transactions) decreased 39.2% in 2014 when compared with 2013. According to the MBA Forecast, the dollar amount of purchase originations decreased 13.1% and refinance originations decreased 56.4%. The lower volume of domestic residential mortgage origination activity in 2014 contributed to a 1.8% decrease in domestic residential purchase orders closed per day and a 45.2% decrease in domestic refinance orders closed per day by the Company's direct title operations in 2014 when compared to 2013.

Given the backdrop of an improving economy, the Company believes that the housing market will continue to strengthen in 2015. In January 2015, refinance activity rose sharply in response to the unexpected decline in mortgage rates, driving total domestic title orders opened per day by the Company's direct title operations up by 27.0% when compared with January of last year. While the increase in refinance orders will provide short-term benefits, it's uncertain how long this elevated level of activity will continue. With regards to the purchase market, the Company's full-year expectation is for modest growth in originations, with some improvement in both transaction levels and home prices. The Company also expects continued strength in the commercial market but with declining growth rates.

The Consumer Financial Protection Bureau ("CFPB") has broad authority to regulate, among other areas, the mortgage and real estate markets in matters pertaining to consumers. In addition to other activities, the CFPB has proposed and implemented regulations related to the simplification of mortgage disclosures and the required delivery of documentation to consumers in connection with the closing of federally-regulated mortgage loans. Compliance with these integrated disclosure rules will require participants in the mortgage market, including the Company, to make significant changes to the manner in which they create, process, and deliver certain disclosures to consumers in connection with mortgage loan applications made on or after August 1, 2015. These changes could lead to lower mortgage volumes and/or delays in mortgage processing, particularly in the early stages of implementation. Readiness for, and compliance with, these rules, also requires extensive planning; changes to systems, forms and processes; as well as heightened coordination among market participants, including by settlement

service providers, such as the Company and its agents, with lenders and others. While there can be no assurance that the Company, its agents or other market participants will be successful in their implementation efforts, the Company is actively preparing for compliance.

Title Insurance and Services

	2014	2013	2012	2014 vs. 2013 $ Change	2014 vs. 2013 % Change	2013 vs. 2012 $ Change	2013 vs. 2012 % Change
	(in thousands, except percentages)						
Revenues							
Direct premiums and escrow fees	$1,761,462	$1,855,270	$1,745,687	$(93,808)	(5.1)	$109,583	6.3
Agent premiums	1,841,618	2,044,862	1,709,905	(203,244)	(9.9)	334,957	19.6
Information and other	617,713	626,016	643,433	(8,303)	(1.3)	(17,417)	(2.7)
Net investment income	59,785	76,606	71,350	(16,821)	(22.0)	5,256	7.4
Net realized investment gains	25,551	3,334	33,709	22,217	NM [1]	(30,375)	(90.1)
Net other-than-temporary impairment losses	(1,701)	—	(3,564)	(1,701)	—	3,564	100.0
	4,304,428	4,606,088	4,200,520	(301,660)	(6.5)	405,568	9.7
Expenses							
Personnel costs	1,314,089	1,338,361	1,233,203	(24,272)	(1.8)	105,158	8.5
Premiums retained by agents	1,470,895	1,636,694	1,370,193	(165,799)	(10.1)	266,501	19.4
Other operating expenses	761,584	816,870	769,477	(55,286)	(6.8)	47,393	6.2
Provision for policy losses and other claims	253,122	343,461	237,427	(90,339)	(26.3)	106,034	44.7
Depreciation and amortization	77,820	66,956	67,610	10,864	16.2	(654)	(1.0)
Premium taxes	51,098	50,980	46,283	118	0.2	4,697	10.1
Interest	2,796	2,601	2,646	195	7.5	(45)	(1.7)
	3,931,404	4,255,923	3,726,839	(324,519)	(7.6)	529,084	14.2
Income before income taxes	$373,024	$350,165	$473,681	$22,859	6.5	$(123,516)	(26.1)
Margins	8.7 %	7.6 %	11.3 %	1.1 %	14.5	(3.7)%	(32.7)

(1) Not meaningful

Direct premiums and escrow fees decreased 5.1% in 2014 from 2013 and increased 6.3% in 2013 from 2012. The decrease in direct premiums and escrow fees in 2014 from 2013 was primarily due to a decrease in the number of domestic title orders closed by the Company's direct operations, partially offset by an increase in the domestic average revenues per order closed. The increase in direct premiums and escrow fees in 2013 from 2012 was primarily due to an increase in domestic average revenues per order closed, partially offset by a decrease in the number of domestic title orders closed by the Company's direct operations. The domestic average revenues per order closed were $1,918, $1,513 and $1,309 for 2014, 2013 and 2012, respectively. The 26.7% increase in average revenues per order closed in 2014 from 2013 and the 15.6% increase in average revenues per order closed in 2013 from 2012 were primarily due to an increase in the mix of direct revenues generated from higher premium residential purchase and commercial transactions, higher real estate values, and a greater number of large commercial deals that closed when compared to the prior year. The Company's direct title operations closed 816,400, 1,103,400 and 1,191,800 domestic title orders during 2014, 2013 and 2012, respectively. The 26.0% decrease in orders closed in 2014 from 2013 and the 7.4% decrease in orders closed in 2013 from 2012 were generally consistent with the declines in residential mortgage origination activity in the United States as reported in the MBA Forecast.

Agent premiums decreased 9.9% in 2014 from 2013 and increased 19.6% in 2013 from 2012. Agent premiums are recorded when notice of issuance is received from the agent, which is generally when cash payment is received by the Company. As a result, there is generally a delay between the agent's issuance of a title policy and the Company's recognition of agent premiums. Therefore, full year agent premiums typically reflect mortgage origination activity from the fourth quarter of the prior year through the third quarter of the current year. The decrease in agent premiums in 2014 from 2013 was consistent with the 10.3% decrease in the Company's direct premiums and escrow fees in the twelve months ended September 30, 2014 as compared with the twelve months ended September 30, 2013. The increase in agent premiums in 2013 from 2012 was consistent with the 19.7% increase in the Company's direct premiums and escrow fees in the twelve months ended September 30, 2013 as compared with the twelve months ended September 30, 2012.

Information and other revenues primarily consist of revenues generated from fees associated with title search and related reports, title and other real property records and images, other non-insured settlement services, and risk mitigation products and services. These revenues generally trend with direct premiums and escrow fees but are typically less volatile since a portion of the revenues are subscription based and do not fluctuate with transaction volumes.

Information and other revenues decreased $8.3 million, or 1.3%, in 2014 from 2013 and $17.4 million, or 2.7%, in 2013 from 2012. Excluding the $55.7 million impact of new acquisitions for the year ended December 31, 2014, information and other revenues decreased $64.1 million, or 10.2%, in 2014 compared to 2013. The decrease in 2014 from 2013, adjusted for the impact of new acquisitions, was primarily attributable to lower demand for the Company's default and title plant information products as a result of the decrease in domestic loss mitigation, foreclosure and mortgage origination activities. The decrease in 2013 from 2012 was primarily attributable to lower demand for title related services in Canada due to a

decline in mortgage transactions resulting primarily from lower refinance transactions and lower demand for the Company's title information products as a result of the decrease in domestic mortgage origination activity, partially offset by higher demand for the Company's default information products as a result of the increase in domestic loss mitigation activity.

Net investment income decreased 22.0% in 2014 from 2013 and increased 7.4% in 2013 from 2012. The decrease in 2014 from 2013 was primarily attributable to higher impairment losses and lower equity in earnings related to investments accounted for using the equity method, partially offset by higher interest income from the investment portfolio. The increase in 2013 from 2012 was primarily attributable to increased dividend and interest income from the investment portfolio due to higher average volumes of equity and debt securities and investments in equity funds with higher dividend yields when comparing 2013 to 2012. Net investment income for 2014, 2013 and 2012 included impairment losses recognized on investments accounted for using the equity method of $22.5 million, $5.8 million and $5.9 million, respectively.

Net realized investment gains for the title insurance and services segment totaled $25.6 million, $3.3 million and $33.7 million for 2014, 2013 and 2012, respectively, and were primarily from the sales of debt and equity securities. Net realized investment gains for 2014 and 2013 included $7.5 million and $2.5 million, respectively, of gains from the sale of real estate. Net realized investment gains for 2012 included $15.0 million of gains resulting from the sale of CoreLogic common stock during the third quarter of 2012. Net realized investment gains for 2014, 2013 and 2012 included impairment losses of $2.4 million, $1.1 million and $0.8 million, respectively, primarily related to software and certain non-marketable investments accounted for using the cost method.

Other-than-temporary impairment losses for the title insurance and services segment totaled $1.7 million and $3.6 million for 2014 and 2012, respectively. No other-than-temporary impairment losses were recognized in 2013. The net other-than-temporary impairment losses recognized in 2014 and 2012 related to the Company's non-agency mortgage-backed securities portfolio.

The title insurance and services segment (primarily direct operations) is labor intensive; accordingly, a major expense component is personnel costs. This expense component is affected by two primary factors: the need to monitor personnel changes to match the level of corresponding or anticipated new orders and the need to provide quality service.

Personnel costs decreased $24.3 million, or 1.8%, in 2014 from 2013 and increased $105.2 million, or 8.5%, in 2013 from 2012. Excluding the $37.0 million impact of new acquisitions for the year ended December 31, 2014, personnel costs decreased $61.3 million, or 4.6%, in 2014 compared to 2013. The decrease in 2014, adjusted for the impact of new acquisitions, was primarily attributable to lower salary, payroll tax, employee benefit, overtime, and severance costs. The lower salary and payroll tax costs were attributable to reduced headcount when compared to the prior year. The lower employee benefit costs were due to changes in the Company's medical and dental insurance plans, lower incurred medical claims and lower headcount when compared to the prior year. The lower overtime costs were due to lower order volumes and revenues when compared to the prior year. The lower severance costs were due to a lower level of employee reductions made during 2014 when compared to 2013. The increase in 2013 compared with 2012 was primarily attributable to higher staffing levels and incentive compensation driven by increased revenues when compared to the prior year. Personnel costs included severance expense of $8.9 million, $17.5 million and $5.5 million for 2014, 2013 and 2012, respectively.

The Company continues to closely monitor order volumes and related staffing levels and intends to adjust staffing levels as considered necessary. The Company's direct title operations opened 1,155,500, 1,384,600 and 1,634,900 domestic title orders in 2014, 2013 and 2012, respectively, representing decreases of 16.5% in 2014 from 2013 and 15.3% in 2013 from 2012.

A summary of premiums retained by agents and agent premiums is as follows:

	2014	2013	2012
	(in thousands, except percentages)		
Premiums retained by agents	$1,470,895	$1,636,694	$1,370,193
Agent premiums	$1,841,618	$2,044,862	$1,709,905
% retained by agents	79.9 %	80.0 %	80.1 %

The premium split between underwriter and agents is in accordance with the respective agency contracts and can vary from region to region due to divergences in real estate closing practices and state regulations. As a result, the percentage of title premiums retained by agents can vary due to the geographical mix of revenues from agency operations. The percentage of title premiums retained by agents for 2014, 2013 and 2012 was essentially unchanged.

Other operating expenses (principally related to direct operations) decreased $55.3 million, or 6.8%, in 2014 from 2013 and increased $47.4 million, or 6.2%, in 2013 from 2012. Excluding the $29.9 million impact of new acquisitions for the year ended December 31, 2014, other operating expenses decreased $85.1 million, or 10.4%, in 2014 compared to 2013. The decrease in 2014 from 2013, adjusted for the impact of new acquisitions, was primarily attributable to lower production related expenses and temporary labor costs driven by lower order volumes. The increase in 2013 from 2012 was primarily attributable to increased production related expenses and higher legal and software related costs.

The provision for policy losses and other claims, expressed as a percentage of title insurance premiums and escrow fees, was 7.0%, 8.8% and 6.9% for the years ended December 31, 2014, 2013 and 2012, respectively.

The current year rate of 7.0% reflects an ultimate loss rate of 5.3% for the current policy year and a net increase in the loss reserve estimates for prior policy years of $62.2 million. The increase in loss reserve estimates for prior policy years reflected claims development above expected levels during 2014, primarily from domestic commercial policies. The reserve strengthening associated with domestic commercial policies was $41.4 million and was primarily attributable to several large commercial claims, net of anticipated recoveries, mainly from mechanics liens, and primarily related to policy years 2003, 2005 and 2007. Other factors, including a large international commercial claim from policy year 2004, also contributed to the net increase in the loss reserve estimates for prior policy years.

As of December 31, 2014, the title insurance and services segment's IBNR reserve was $802.1 million, which reflected management's best estimate. The Company's internal actuary determined a range of reasonable estimates of $726.1 million to $990.5 million. The range limits are $76.0 million below and $188.4 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.

The prior year rate of 8.8% reflected an ultimate loss rate of 5.0% for policy year 2013 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. At December 31, 2013, the Company expected the high level of foreclosure processing to continue in the near term as mortgage lenders and servicers worked through their foreclosure inventory. The reserve strengthening associated with domestic lenders policies reflected 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.

The 2012 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 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 and general economic uncertainty. Other factors, including factors not yet identified, may also influence claims development. While real estate and financial market conditions have improved to some extent as evidenced by increased real estate prices and a decline in mortgage defaults, significant uncertainty remains. In addition, while foreclosure inventory and foreclosure processing remain elevated compared to historic norms, the level of inventory and processing has declined from its peak.

Nevertheless, 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. 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.

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, 2014, for policy years 2014, 2013 and 2012 were 5.3%, 4.6% and 3.8%, 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 2014 than in 2005 through 2008, including, but not limited to, tighter loan underwriting standards. Current claims data from policy years 2009 through 2014, while still at an early stage of development for the more recent policy years within that period, supports this assumption.

Depreciation and amortization expense increased $10.9 million, or 16.2%, in 2014 from 2013 and decreased $0.7 million, or 1.0%, in 2013 from 2012. The increase in 2014 was primarily attributable to the depreciation and amortization expense associated with developed technology and other intangible assets recorded in connection with new acquisitions completed during the first quarter of 2014. Excluding the $8.6 million impact of new acquisitions for the year ended December 31, 2014, depreciation and amortization expense increased $2.3 million, or 3.4%, in 2014 compared to 2013.

Insurers generally are not subject to state income or franchise taxes. However, in lieu thereof, a premium tax is imposed on certain operating revenues, as defined by statute. Tax rates and bases vary from state to state; accordingly, the total premium tax burden is dependent upon the geographical mix of operating revenues. The Company's noninsurance subsidiaries are subject to state income tax and do not pay premium tax. Accordingly, the Company's total tax burden at the state level for the title insurance and services segment is composed of a combination of premium taxes and state income taxes. Premium taxes as a percentage of title insurance premiums and escrow fees were 1.4%, 1.3% and 1.3% for the years ended December 31, 2014, 2013 and 2012, respectively.

In general, the title insurance business is a lower profit margin business when compared to the Company's specialty insurance segment. The lower profit margins reflect the high cost of performing the essential services required before insuring title, whereas the corresponding revenues are subject to regulatory and competitive pricing restraints. Due to this relatively high proportion of fixed costs, title insurance profit margins generally improve as closed order volumes increase. Title insurance profit margins are affected by the composition (residential or commercial) and type (resale, refinancing or new construction) of real estate activity. Title insurance profit margins are also affected by the percentage of title insurance premiums generated by agency operations. Profit margins from direct operations are generally higher than from agency operations due primarily to the large portion of the premium that is retained by the agent. The pre-tax margins were 8.7%, 7.6% and 11.3% for the years ended December 31, 2014, 2013 and 2012, respectively.

Specialty Insurance

	2014	2013	2012	2014 vs. 2013		2013 vs. 2012	
				$ Change	% Change	$ Change	% Change
	(in thousands, except percentages)						
Revenues							
Direct premiums	$353,812	$329,194	$296,053	$24,618	7.5	$33,141	11.2
Information and other	2,260	1,652	1,605	608	36.8	47	2.9
Net investment income	7,288	7,342	8,923	(54)	(0.7)	(1,581)	(17.7)
Net realized investment gains	5,306	1,425	8,590	3,881	272.4	(7,165)	(83.4)
	368,666	339,613	315,171	29,053	8.6	24,442	7.8
Expenses							
Personnel costs	62,118	58,261	55,453	3,857	6.6	2,808	5.1
Other operating expenses	45,599	41,725	42,395	3,874	9.3	(670)	(1.6)
Provision for policy losses and other claims	196,901	186,895	160,290	10,006	5.4	26,605	16.6
Depreciation and amortization	4,978	4,865	4,553	113	2.3	312	6.9
Premium taxes	6,096	5,735	5,021	361	6.3	714	14.2
	315,692	297,481	267,712	18,211	6.1	29,769	11.1
Income before income taxes	$52,974	$42,132	$47,459	$10,842	25.7	$(5,327)	(11.2)
Margins	14.4 %	12.4 %	15.1 %	2.0 %	16.1	(2.7)%	(17.9)

Direct premiums increased 7.5% in 2014 from 2013 and 11.2% in 2013 from 2012. The increases were driven by higher premiums earned in the home warranty business and, to a lesser extent, higher premiums earned in the property and casualty business. The increase in the home warranty business was primarily in its renewal and real estate channels and was driven by an increase in the price charged for home warranty residential service contracts and an increase in the number of contracts issued. The increase in the property and casualty business was primarily in its independent broker and direct channels.

Net realized investment gains for the specialty insurance segment totaled $5.3 million, $1.4 million and $8.6 million for 2014, 2013 and 2012, respectively, and were primarily from the sales of debt and equity securities.

Personnel costs and other operating expenses increased 7.7% in 2014 from 2013 and 2.2% in 2013 from 2012. The increase in 2014 from 2013 was primarily related to higher salary expense associated with higher average employee headcount during the current year related to increased volume in the home warranty business, higher incentive compensation related to higher revenue and profitability, higher production related expenses due to increased volumes, and increased amortization of deferred acquisition costs. The increase in 2013 from 2012 was primarily related to increased salary expense associated with higher employee headcount and higher commissions paid to agents and brokers associated with increased volume in the home warranty and property and casualty businesses, partially offset by an increase in deferred acquisition costs.

The provision for home warranty claims, expressed as a percentage of home warranty premiums, was 53.3% in 2014, 57.5% in 2013 and 55.8% in 2012. The decrease in rate in 2014 from 2013 was primarily attributable to lower severity and lower frequency of claims due to milder weather conditions during the second and third quarters of 2014 when compared to the respective quarters of 2013. The rate in 2014 also benefited from an improvement in claims management in 2014 when compared to 2013. The increase in rate in 2013 from 2012 was primarily attributable to higher weather related claims in the summer season as compared to the previous year, which resulted in an increase in more costly air conditioning claims when compared to 2012. In addition, the frequency and severity of other types of

claims increased in 2013 when compared to 2012.

The provision for property and casualty claims, expressed as a percentage of property and casualty insurance premiums, was 60.1% in 2014, 55.4% in 2013 and 51.1% in 2012. The increase in rate in 2014 from 2013 was primarily attributable to higher claims severity and frequency. 2014 was impacted by the severe winter weather experienced in the first quarter and the California wildfires that occurred during the second quarter. The increase in rate in 2013 from 2012 was due to an increase in seasonal fire and storm claim events and an increase in the frequency and severity of routine or non-event core losses.

Premium taxes as a percentage of specialty insurance segment premiums were 1.7% in 2014, 2013 and 2012.

A large part of the revenues for the specialty insurance businesses are generated by renewals and are not dependent on the level of real estate activity in the year of renewal. With the exception of loss expense, the majority of the expenses for this segment are variable in nature and therefore generally fluctuate consistent with revenue fluctuations. Accordingly, profit

margins for this segment (before loss expense) are relatively constant, although as a result of some fixed expenses, profit margins (before loss expense) should nominally improve as premium revenues increase. Pre-tax margins were 14.4%, 12.4% and 15.1% for 2014, 2013 and 2012, respectively.

Corporate

	2014	2013	2012	2014 vs. 2013		2013 vs. 2012	
				$ Change	% Change	$ Change	% Change
	(in thousands, except percentages)						
Revenues							
Net investment income	$5,504	$8,556	$4,120	$(3,052)	(35.7)	$4,436	107.7
Net realized investment gains	911	4,452	25,772	(3,541)	(79.5)	(21,320)	(82.7)
	6,415	13,008	29,892	(6,593)	(50.7)	(16,884)	(56.5)
Expenses							
Personnel costs	34,545	48,960	46,210	(14,415)	(29.4)	2,750	6.0
Other operating expenses	26,528	27,264	24,462	(736)	(2.7)	2,802	11.5
Depreciation and amortization	2,799	3,095	2,787	(296)	(9.6)	308	11.1
Interest	17,981	15,278	9,782	2,703	17.7	5,496	56.2
	81,853	94,597	83,241	(12,744)	(13.5)	11,356	13.6
Loss before income taxes	$(75,438)	$(81,589)	$(53,349)	$6,151	7.5	$(28,240)	(52.9)

Net investment income totaled $5.5 million, $8.6 million and $4.1 million in 2014, 2013, and 2012, respectively. The change in net investment income for all three years is primarily attributable to fluctuations in earnings on investments associated with the Company's deferred compensation plan. Net investment income for 2013 and 2012 included impairment losses recognized on investments accounted for using the equity method of $2.0 million and $1.2 million, respectively.

Net realized investment gains totaled $0.9 million and $4.5 million in 2014 and 2013, respectively, and were primarily attributable to the sale of non-marketable investments. Net realized investment gains totaled $25.8 million in 2012 and were attributable to the sale of CoreLogic stock during the third quarter of 2012.

Corporate personnel costs and other operating expenses were $61.1 million, $76.2 million and $70.7 million in 2014, 2013 and 2012, respectively. The decrease for 2014 was primarily attributable to decreased costs associated with the Company's defined benefit pension, supplemental benefit and deferred compensation plans. The increase for 2013 was attributable to increased costs associated with the Company's deferred compensation plan and, to a lesser extent, increased expenses allocated to the corporate division. The Company expects to incur additional expenses of approximately $9 million in 2015 related to its defined benefit pension and supplemental benefit plans when compared to 2014. The expected increase in 2015 is primarily the result of a significant decline in interest rates at December 31, 2014 when compared to December 31, 2013, and to a lesser extent, the Company's adoption of the updated mortality tables published by the Society of Actuaries in October 2014 which reflect substantial improvements to life expectancy.

Interest expense increased $2.7 million in 2014 from 2013 and $5.5 million in 2013 from 2012. Interest expense increased in 2014 from 2013 primarily due to the Company's issuance of $300.0 million of debt in November 2014. Interest expense increased in 2013 from 2012 primarily due to the Company's issuance of $250.0 million of debt in January 2013. The Company expects to incur additional interest expense of approximately $10 million in 2015 when compared to 2014 due to the Company's issuance of debt in November 2014. This expected increase assumes the Company will not borrow under its credit facility in 2015. Interest expense related to intercompany notes

payable to the title insurance and services and specialty insurance segments was $1.5 million, $2.6 million and $3.2 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Eliminations

Eliminations primarily represent interest income and related interest expense associated with intercompany notes between the Company's segments, which are eliminated in the consolidated financial statements. The Company's inter-segment eliminations were not material for the years ended December 31, 2014, 2013 and 2012.

Income Taxes

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,					
	2014		2013		2012	
	(in thousands, except percentages)					
Taxes calculated at federal rate	$122,696	35.0%	$108,748	35.0%	$163,592	35.0%
State taxes, net of federal benefit	2,891	0.8	11,480	3.7	9,525	2.0
Change in liability for tax positions	412	0.1	3,537	1.1	2,033	0.4
Change in capital loss valuation allowance	—	—	—	—	(5,276)	(1.1)
Foreign income taxed at different rates	(6,091)	(1.7)	8,567	2.8	2,881	0.6
Foreign tax credits	(2,184)	(0.6)	(5,640)	(1.8)	(2,921)	(0.6)
Other items, net	(1,379)	(0.4)	(3,048)	(1.0)	(4,156)	(0.9)
	$116,345	33.2%	$123,644	39.8%	$165,678	35.4%

The Company’s effective income tax rate (income tax expense as a percentage of income before income taxes) was 33.2% for 2014, 39.8% for 2013 and 35.4% for 2012. The differences in the effective tax rates were primarily due to changes in state and foreign income taxes resulting from fluctuations in the Company’s noninsurance and foreign subsidiaries’ contribution to pretax profits, changes in the ratio of permanent differences to income before income taxes 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.

Net Income and Net Income Attributable to the Company

Net income and per share information are summarized as follows:

	2014	2013	2012
	(in thousands, except per share amounts)		
Net income	$ 234,215	$ 187,064	$ 301,728
Less: Net income attributable to noncontrolling interests	681	697	687
Net income attributable to the Company	$ 233,534	$ 186,367	$ 301,041
Net income per share attributable to the Company’s stockholders:			
Basic	$ 2.18	$ 1.74	$ 2.83
Diluted	$ 2.15	$ 1.71	$ 2.77
Weighted-average common shares outstanding:			
Basic	106,884	106,991	106,307
Diluted	108,688	109,102	108,542

See Note 13 Earnings Per Share to the consolidated financial statements for further discussion of earnings per share.

Liquidity and Capital Resources

Cash requirements. The Company generates cash primarily from the sale of its products and services and investment income. The Company’s current cash requirements include operating expenses, taxes, payments of principal and interest on its debt, capital expenditures, potential business acquisitions and dividends on its common stock. Management forecasts the cash needs of the holding company and its primary subsidiaries and regularly reviews their short-term and long-term projected sources and uses of funds, as well as the asset, liability, investment

and cash flow assumptions underlying such forecasts. Due to the Company's ability to generate cash flows from operations and its liquid-asset position, management believes that its resources are sufficient to satisfy its anticipated operational cash requirements and obligations for at least the next twelve months.

The substantial majority of the Company's business is dependent upon activity in the real estate and mortgage markets, which are cyclical and seasonal. Periods of increasing interest rates and reduced mortgage financing availability generally have an adverse effect on residential real estate activity and therefore typically decrease the Company's revenues. In contrast, periods of declining interest rates and increased mortgage financing availability generally have a positive effect on residential

real estate activity which typically increases the Company's revenues. Residential purchase activity is typically slower in the winter months with increased volumes in the spring and summer months. Residential refinance activity is typically more volatile than purchase activity and is highly impacted by changes in interest rates. Commercial real estate volumes are less sensitive to changes in interest rates, but fluctuate based on local supply and demand conditions for space and mortgage financing availability.

Cash provided by operating activities amounted to $360.6 million, $378.5 million and $429.7 million for the years ended December 31, 2014, 2013 and 2012, respectively, after claim payments, net of recoveries, of $469.8 million, $479.3 million and $446.0 million, respectively. The principal nonoperating uses of cash and cash equivalents for the year ended December 31, 2014 were purchases of debt and equity securities, repayment of debt, business acquisitions, capital expenditures and dividends to common stockholders. The principal nonoperating uses of cash and cash equivalents for the year ended December 31, 2013 were purchases of debt and equity securities, repayment of debt, capital expenditures, purchase of Company shares and payment of dividends to common stockholders. The principal nonoperating uses of cash and cash equivalents for the year ended December 31, 2012 were purchases of debt and equity securities, repayment of debt, capital expenditures and payment of dividends to common stockholders. The most significant nonoperating sources of cash and cash equivalents for the years ended December 31, 2014, 2013 and 2012 were proceeds from the sales and maturities of debt and equity securities, increases in the deposit balances at the Company's banking operations, proceeds from the issuance of debt and paydowns and net proceeds related to the sale of loans receivable. The net effect of all activities on total cash and cash equivalents were increases of $355.2 million, $164.3 million and $225.8 million for the years ended December 31, 2014, 2013 and 2012, respectively.

The Company continually assesses its capital allocation strategy, including decisions relating to dividends, stock repurchases, capital expenditures, acquisitions and investments. In March 2014, the Company's board of directors approved an increase in the Company's second quarter cash dividend to 24 cents per common share, representing a 100% increase from the prior level of 12 cents per common share. In January 2015, the Company's board of directors approved a first quarter cash dividend of 25 cents per common share. Management expects that the Company will continue to pay quarterly cash dividends at or above the current level. The timing, declaration and payment of future dividends, however, falls within the discretion of the Company's board of directors and will depend upon many factors, including the Company's financial condition and earnings, the capital requirements of the Company's businesses, industry practice, restrictions imposed by applicable law and any other factors the board of directors deems relevant from time to time.

In March 2014, the Company's board of directors approved an increase in the size of the Company's stock repurchase plan from $150.0 million to $250.0 million, of which $182.9 million remained as of December 31, 2014. Purchases may be made from time to time by the Company in the open market at prevailing market prices or in privately negotiated transactions. The Company did not repurchase any shares of its common stock during the year ended December 31, 2014 and as of December 31, 2014, 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.

The Company completed acquisitions in 2014 for an aggregate purchase price of $162.5 million, which were partially funded through borrowings under the Company's credit facility.

Holding company. First American Financial Corporation is a holding company that conducts all of its operations through its subsidiaries. The holding company's current cash requirements include payments of principal and interest on its debt, taxes, payments in connection with employee benefit plans, dividends on its common stock and other expenses. The holding company is dependent upon dividends and other payments from its operating subsidiaries to meet its cash requirements. The Company's target is to maintain a cash balance at the holding company equal to at least twelve months of estimated cash requirements. At certain points in time, the actual cash balance at the holding company may vary from this target due to, among other potential factors, the timing and amount of cash payments

made and dividend payments received. Pursuant to insurance and other regulations under which the Company's insurance subsidiaries operate, the amount of dividends, loans and advances available to the holding company is limited, principally for the protection of policyholders. As of December 31, 2014, under such regulations, the maximum amount of dividends, loans and advances available to the holding company from its insurance subsidiaries in 2015, without prior approval from applicable regulators, was $570.0 million. Such restrictions have not had, nor are they expected to have, an impact on the holding company's ability to meet its cash obligations.

The Company's principal title insurance subsidiary, First American Title Insurance Company ("FATICO"), which was previously domiciled in the state of California, redomesticated to Nebraska effective July 1, 2014. While the redomestication did impact FATICO's total statutory capital and surplus, statutory net income and the maximum amount of dividends

FATICO can pay to the holding company due to differences in prescribed accounting practices and other regulations between the two states, the impact of the redomestication was not material to the liquidity or capital resources of the holding company.

In 2014, the Company substantially completed a multi-year initiative to restructure its legal entity organizational structure in order to increase the amount of dividends available to the holding company from its operating subsidiaries. As a result of this restructuring, a number of subsidiaries previously owned by FATICO are now owned either directly by the holding company or otherwise outside of any regulated insurance company.

As of December 31, 2014, the holding company's sources of liquidity included $328.9 million of cash and cash equivalents and $700.0 million available on the Company's revolving credit facility. Management believes that liquidity at the holding company is sufficient to satisfy anticipated cash requirements and obligations for at least the next twelve months.

Financing. In May 2014, the Company amended and restated its credit agreement with JPMorgan Chase Bank, N.A. in its capacity as administrative agent and the lenders party thereto. The credit agreement is comprised of a $700.0 million revolving credit facility. Unless terminated earlier, the revolving loan commitments under the credit agreement will terminate on May 14, 2019. The obligations of the Company under the credit agreement are neither secured nor guaranteed. The agreement replaced the Company's $600.0 million senior unsecured credit agreement that had been in place since November 14, 2012. Proceeds under the credit agreement may be used for general corporate purposes. At December 31, 2014, the Company had no outstanding borrowings under the facility.

The credit agreement includes an expansion option that permits the Company, subject to satisfaction of certain conditions, to increase the revolving commitments and/or add term loan tranches ("Incremental Term Loans") in an aggregate amount not to exceed $150.0 million. Incremental Term Loans, if made, may not mature prior to the revolving commitment termination date, provided that amortization may occur prior to such date.

At the Company's election, borrowings of revolving loans under the credit agreement bear interest at (a) the Alternate Base Rate plus the applicable spread or (b) the Adjusted LIBOR rate plus the applicable spread (in each case as defined in the agreement). 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 applicable spread varies depending upon the debt rating assigned by Moody's Investor Service ("Moody's"), Inc. and/or Standard & Poor's Rating Services ("S&P"). The minimum applicable spread for Alternate Base Rate borrowings is 0.625% and the maximum is 1.00%. The minimum applicable spread for Adjusted LIBOR rate borrowings is 1.625% and the maximum is 2.00%. The rate of interest on Incremental Term Loans will be established at or about the time such loans are made and may differ from the rate of interest on revolving 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 an event of default the lenders may accelerate the loans. Upon the occurrence of certain insolvency and bankruptcy events of default the loans will automatically accelerate. As of December 31, 2014, the Company was in compliance with the financial covenants under the credit agreement.

In addition to amounts available under its credit facility, certain subsidiaries of the Company are parties to master repurchase agreements which are used as part of the Company's liquidity management activities and to support its risk management activities. In particular, securities loaned or sold under repurchase agreements may be used as short-term funding sources. During 2014, the Company financed securities for funds received totaling $35.6 million under these agreements. As of December 31, 2014, no amounts remained outstanding under these agreements.

On November 10, 2014, the Company issued $300.0 million of 4.60% 10-year senior unsecured notes due in 2024. The notes were priced at 99.975% to yield 4.603%. Interest is due semi-annually on May 15 and November 15, beginning May 15, 2015. The Company intends to use the net proceeds for general corporate purposes. In anticipation of the receipt of the net proceeds from this offering, the Company repaid all borrowings outstanding under its credit facility, increasing the available capacity thereunder to the full $700.0 million size of the facility.

Notes and contracts payable as a percentage of total capitalization was 18.6% and 11.2% at December 31, 2014 and 2013, respectively. The increase in 2014 primarily reflected the Company's issuance of the senior unsecured notes during the fourth quarter of 2014. Notes and contracts payable are further described in Note 10 Notes and Contracts Payable to the consolidated financial statements.

Investment portfolio. The Company maintains a high quality, liquid investment portfolio that is primarily held at its insurance and banking subsidiaries. As of December 31, 2014, 90% of the Company's investment portfolio consisted of fixed

income securities, of which 66% were United States government-backed or rated AAA and 97% were rated or classified as investment grade. Percentages are based on the amortized cost basis of the securities. Credit ratings are based on S&P and Moody's published ratings. If a security was rated differently by both rating agencies, the lower of the two ratings was selected.

The table below outlines the composition of the investment portfolio in an unrealized loss position, by credit rating, (percentages are based on the amortized cost basis of the investments) as of December 31, 2014:

	A-Ratings or Higher	BBB+ to BBB- Ratings	Non-Investment Grade/Not Rated
December 31, 2014			
US Treasury bonds	100.0 %	0.0 %	0.0 %
Municipal bonds	97.9 %	0.0 %	2.1 %
Foreign bonds	99.0 %	1.0 %	0.0 %
Governmental agency bonds	100.0 %	0.0 %	0.0 %
Governmental agency mortgage-backed securities	100.0 %	0.0 %	0.0 %
Non-agency mortgage-backed securities	0.0 %	0.0 %	100.0 %
Corporate debt securities	44.5 %	32.0 %	23.5 %
Preferred stock	0.0 %	45.1 %	54.9 %
	89.5 %	5.6 %	4.9 %

In addition to its debt and equity investment securities portfolio, the Company maintains certain money-market and other short-term investments.

Capital expenditures. Capital expenditures primarily consist of additions to property and equipment, capitalized software development costs and additions to title plants. Capital expenditures were $99.4 million, $87.1 million and $83.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. The increase in 2014 from 2013 was primarily related to higher software, capitalized real estate data and title plant additions partially offset by lower property and equipment additions in 2014 when compared to 2013. The increase in 2013 from 2012 was primarily related to higher property and equipment additions, partially offset by lower title plant additions in 2013 when compared to 2012.

Contractual obligations. A summary, by due date, of the Company's total contractual obligations at December 31, 2014, is as follows:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in thousands)				
Notes and contracts payable	$587,337	$4,899	$9,467	$7,454	565,517
Interest on notes and contracts payable	238,088	26,551	52,327	51,595	107,615
Operating leases	323,961	79,243	124,586	59,859	60,273
Deposits	2,332,714	2,332,714	—	—	—
Claim losses	1,011,780	264,175	289,925	163,194	294,486
Pension and supplemental benefit plans	549,673	35,813	67,679	50,056	396,125

$5,043,553	$2,743,395	$543,984	$332,158	$1,424,016

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 $24.1 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 $6.3 billion and $4.7 billion at December 31, 2014 and 2013, respectively, of which $2.2 billion and $1.6 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 temporarily invested in cash and cash equivalents and debt and equity securities, with offsetting liabilities included in deposits in the accompanying consolidated balance sheets. The remaining escrow deposits were held at third-party financial institutions.

Trust assets held or managed by First American Trust, FSB totaled $3.0 billion at December 31, 2014 and 2013. 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 and, as a result, 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 each 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 $2.4 billion and $1.4 billion at December 31, 2014 and 2013, respectively. The like-kind exchange deposits are 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, 2014 and 2013, the Company was contingently liable for guarantees of indebtedness owed by affiliates and third parties to banks and others totaling $8.9 million and $14.7 million, respectively. The guarantee arrangements relate to promissory notes and other contracts that contingently require the Company to make payments to the guaranteed party upon the failure of debtors to make scheduled payments according to the terms of the notes and contracts. The Company's maximum potential obligation under these guarantees totaled $8.9 million and $14.7 million at December 31, 2014 and 2013, 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, 2014 and 2013.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company's assets and liabilities include financial instruments subject to the risk of loss from adverse changes in market rates and prices. The Company's primary market risk exposures relate to interest rate risk, equity price risk, foreign currency risk and credit risk.

The Company manages its primary market risk exposures through an investment committee made up of certain senior executives which is advised by an experienced investment management staff.

The Company has selected a new disclosure alternative, from among the three alternatives allowed, to present quantitative information about market risk specific to interest rate risk and equity price risk for 2014 and 2013. The Company has determined that a change from the tabular presentation of information related to market risk sensitive instruments to a sensitivity analysis disclosure of potential losses would be more useful to third party users of the Company's financial statements as a sensitivity analysis presents how adverse changes in market rates and prices could impact the Company's financial results.

While the hypothetical scenarios below are considered to be near-term reasonably possible changes demonstrating potential risk, they are for illustrative purposes only and do not reflect the Company's expectations about future market changes.

Interest Rate Risk

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 Company's exposure to interest rate changes primarily results from the Company's significant portfolio of fixed income securities and from its financing activities. In general, the fair value of fixed income securities increases or decreases inversely with changes in market interest rates. The Company also considers its investments in preferred stock, which are tied to interest rates, to be exposed to interest rate risk. The fair values of the Company's fixed income portfolio at December 31, 2014 and 2013 were $3.5 billion and $2.8 billion, respectively. One means of assessing the exposure of the Company's fixed income portfolio to interest rate changes is a duration-based analysis that measures the potential changes in fair value resulting from a hypothetical parallel and instantaneous shift in interest rates across all maturities. Under this model, with all other factors held constant, the Company estimates that increases in interest rates of 100 and 200 basis points could cause the fair value of its fixed income portfolio (including investments in preferred stock) at December 31, 2014 to decrease by approximately $110 million, or 3.2%, and $217 million, or 6.2%, respectively, and at December 31, 2013 to decrease by approximately $98 million, or 3.5%, and $194 million, or 6.8%, respectively.

With respect to floating rate debt, the Company is primarily exposed to the effects of changes in prevailing interest rates through its variable rate credit facility and its interest bearing escrow deposit liabilities. As of December 31, 2014 and 2013, the Company had no outstanding borrowings under its credit facility. Assuming the full utilization of available funds under the facility of $700.0 million and $600.0 million at December 31, 2014 and 2013, respectively, and assuming that the borrowings were outstanding for the entire year, increases of 50 and 100 basis points in the prevailing interest rate on the Company's credit facility would result in increases in interest expense of $3.5 million and $7.0 million, respectively, for 2014 and increases of $3.0 million and $6.0 million, respectively, for 2013.

The Company's interest bearing escrow deposit liabilities totaled $2.0 billion and $1.4 billion at December 31, 2014 and 2013, respectively. These variable rate customer savings accounts are subject to market rate fluctuations. Weighted average interest rates for 2014 and 2013 were 0.11% and 0.13%, respectively. Assuming

increases in interest rates of 25 and 50 basis points and the deposit amounts at December 31, 2014 and 2013 are held constant for the entire year, interest expense for 2014 would be higher by $4.9 million and $9.8 million, respectively, and for 2013 interest expense would be higher by $3.4 million and $6.9 million, respectively.

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. The fair value of the Company's equity securities portfolio (excluding preferred stock of $15.5 million and $11.1 million) was $386.9 million and $347.0 million as of December 31, 2014 and 2013, respectively.

Assuming broad-based declines in equity market prices of 10% and 20%, with all other factors constant, the fair value of the Company's equity securities at December 31, 2014 could decrease by $38.7 million and $77.4 million, respectively, and at December 31, 2013 could decrease by $34.7 million and $69.4 million, respectively.

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 currently use derivative financial instruments in any material amount to hedge its foreign exchange risk.

Credit Risk

The Company's debt securities portfolio is 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 credit rating are established and monitored by the Company's investment committee.

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

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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, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 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, 2014, based on criteria established in Internal Control - Integrated Framework (2013) 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 23, 2015

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except par values)

	December 31,	
	2014	2013
ASSETS		
Cash and cash equivalents	$1,190,080	$834,837
Accounts and accrued income receivable, less allowances of $34,662 and $31,831	276,610	236,895
Income taxes receivable	5,547	37,632
Investments:		
Deposits with banks	21,445	23,492
Debt securities, includes pledged securities of $120,742 and $123,956	3,450,252	2,819,817
Equity securities	402,412	358,043
Other long-term investments	159,783	183,976
	4,033,892	3,385,328
Loans receivable, net	—	73,755
Property and equipment, net	395,287	361,348
Title plants and other indexes	530,589	523,879
Deferred income taxes	19,712	27,478
Goodwill	959,945	846,026
Other intangible assets, net	55,812	46,347
Other assets	198,626	185,658
	$7,666,100	$6,559,183
LIABILITIES AND EQUITY		
Deposits	$2,332,714	$1,692,932
Accounts payable and accrued liabilities:		
Accounts payable	26,264	26,378
Personnel costs	184,994	183,344
Pension costs and other retirement plans	477,763	388,993
Other	165,084	197,097
	854,105	795,812
Deferred revenue	202,764	192,184
Reserve for known and incurred but not reported claims	1,011,780	1,018,365
Income taxes payable	6,228	—
Deferred income taxes	95,128	93,362
Notes and contracts payable	587,337	310,285
	5,090,056	4,102,940
Commitments and contingencies (Notes 18 and 20)		
Stockholders’ equity:		
Preferred stock, $0.00001 par value; Authorized—500 shares;		
Outstanding—none	—	—
Common stock, $0.00001 par value; Authorized—300,000 shares;		

Outstanding—107,541 shares and 105,900 shares	1	1
Additional paid-in capital	2,109,712	2,077,828
Retained earnings	662,310	520,764
Accumulated other comprehensive loss	(199,106)	(145,544)
Total stockholders' equity	2,572,917	2,453,049
Noncontrolling interests	3,127	3,194
Total equity	2,576,044	2,456,243
	$7,666,100	$6,559,183

See Notes to Consolidated Financial Statements

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	Year Ended December 31,		
	2014	2013	2012
Revenues:			
Direct premiums and escrow fees	$2,115,274	$2,184,464	$2,041,740
Agent premiums	1,841,618	2,044,862	1,709,905
Information and other	619,949	627,645	645,023
Net investment income	71,041	89,895	81,031
Net realized investment gains	31,768	9,211	67,686
Net other-than-temporary impairment losses	(1,701)	—	(3,564)
	4,677,949	4,956,077	4,541,821
Expenses:			
Personnel costs	1,410,752	1,445,582	1,334,866
Premiums retained by agents	1,470,895	1,636,694	1,370,193
Other operating expenses	833,681	885,805	836,319
Provision for policy losses and other claims	450,023	530,356	397,717
Depreciation and amortization	85,597	74,916	74,950
Premium taxes	57,194	56,715	51,304
Interest	19,247	15,301	9,066
	4,327,389	4,645,369	4,074,415
Income before income taxes	350,560	310,708	467,406
Income taxes	116,345	123,644	165,678
Net income	234,215	187,064	301,728
Less: Net income attributable to noncontrolling interests	681	697	687
Net income attributable to the Company	$233,534	$186,367	$301,041
Net income per share attributable to the Company's stockholders:			
Basic	$2.18	$1.74	$2.83
Diluted	$2.15	$1.71	$2.77
Cash dividends declared per share	$0.84	$0.48	$0.36
Weighted-average common shares outstanding:			
Basic	106,884	106,991	106,307
Diluted	108,688	109,102	108,542

See Notes to Consolidated Financial Statements

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Year Ended December 31,		
	2014	2013	2012
Net income	$234,215	$187,064	$301,728
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) on securities	18,862	(32,992)	31,445
Unrealized gain on securities for which credit losses have been recognized in earnings	776	2,327	3,902
Foreign currency translation adjustment	(16,694)	(13,650)	5,131
Pension benefit adjustment	(56,496)	49,324	(13,571)
Total other comprehensive income (loss), net of tax	(53,552)	5,009	26,907
Comprehensive income	180,663	192,073	328,635
Less: Comprehensive income attributable to noncontrolling interests	691	694	691
Comprehensive income attributable to the Company	$179,972	$191,379	$327,944

See Notes to Consolidated Financial Statements

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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, 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 expense	—	—	14,839	—	—	14,839	—	14,839
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	—	—	(704)	—	—	(704)	(1,204)	(1,908)

interests								
Other comprehensive income (loss) (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
Net income for 2014	—	—	—	233,534	—	233,534	681	234,215
Dividends on common shares	—	—	—	(89,939)	—	(89,939)	—	(89,939)
Shares issued in connection with share-based compensation plans	1,641	—	12,506	(2,049)	—	10,457	—	10,457
Share-based compensation expense	—	—	19,302	—	—	19,302	—	19,302
Net activity related to noncontrolling interests	—	—	76	—	—	76	(758)	(682)
Other comprehensive income (loss) (Note 19)	—	—	—	—	(53,562)	(53,562)	10	(53,552)
Balance at December 31, 2014	107,541	$ 1	$2,109,712	$662,310	$ (199,106)	$2,572,917	$ 3,127	$2,576,044

See Notes to Consolidated Financial Statements

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$234,215	$187,064	$301,728
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for policy losses and other claims	450,023	530,356	397,717
Depreciation and amortization	85,597	74,916	74,950
Amortization of premiums and accretion of discounts on securities, net	24,579	26,782	17,264
Excess tax benefits from share-based compensation	(6,856)	(6,202)	(2,372)
Net realized investment gains	(31,768)	(9,211)	(67,686)
Net other-than-temporary impairment losses	1,701	—	3,564
Share-based compensation	19,302	22,301	14,839
Equity in earnings of affiliates, net	16,545	(5,316)	(6,514)
Dividends from equity method investments	5,002	11,552	11,585
Changes in assets and liabilities excluding effects of acquisitions and noncash transactions:			
Claims paid, including assets acquired, net of recoveries	(469,750)	(479,310)	(445,986)
Net change in income tax accounts	45,872	2,589	64,486
(Increase) decrease in accounts and accrued income receivable	(9,950)	23,645	(29,398)
(Decrease) increase in accounts payable and accrued liabilities	(15,003)	5,318	83,979
Increase in deferred revenue	10,333	20,102	14,844
Other, net	795	(26,114)	(3,325)
Cash provided by operating activities	360,637	378,472	429,675
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net cash effect of acquisitions/dispositions	(163,320)	(5,837)	(32,476)
Net decrease in deposits with banks	4,211	4,747	2,522
Purchases of debt and equity securities	(1,969,009)	(1,532,710)	(1,796,314)
Proceeds from sales of debt and equity securities	928,386	621,255	954,626
Proceeds from maturities of debt securities	373,969	488,684	491,674
Net change in other long-term investments	8,025	6,443	6,591
Net proceeds from sale of loans receivable	42,284	—	—
Net paydowns on loans receivable	23,926	33,597	31,839
Capital expenditures	(97,222)	(87,142)	(83,892)
Proceeds from sale of property and equipment	12,058	5,807	7,767
Cash used for investing activities	(836,692)	(465,156)	(417,663)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	647,857	281,739	317,957
Net proceeds from issuance of debt	594,477	249,144	440,065

Repayment of debt	(325,110)	(168,205)	(510,544)
Net activity related to noncontrolling interests	(682)	(1,894)	(4,094)
Excess tax benefits from share-based compensation	6,856	6,202	2,372
Net proceeds in connection with share-based compensation plans	3,601	1,736	12,668
Purchase of Company shares	—	(64,606)	—
Cash dividends	(89,939)	(51,324)	(44,705)
Cash provided by financing activities	837,060	252,792	213,719
Effect of exchange rate changes on cash	(5,762)	(1,800)	105
Net increase in cash and cash equivalents	355,243	164,308	225,836
Cash and cash equivalents—Beginning of year	834,837	670,529	444,693
Cash and cash equivalents—End of year	$1,190,080	$834,837	$670,529
SUPPLEMENTAL INFORMATION:			
Cash paid during the year for:			
Interest	$17,327	$10,827	$8,909
Premium taxes	$58,148	$54,629	$45,375
Income taxes, less refunds of $13,925, $1,329 and $32,269	$72,028	$120,313	$87,324

See Notes to Consolidated Financial Statements

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 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.

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.

Reclassifications, revisions and out-of-period adjustments

Certain 2012 and 2013 amounts have been reclassified to conform to the 2014 presentation.

The consolidated balance sheet as of December 31, 2013 was revised for an error which resulted in an adjustment between income taxes receivable and deferred income taxes. The adjustment resulted in an increase to income taxes

receivable of $11.1 million, an increase in deferred income tax assets of $27.5 million and an increase in deferred income tax liabilities of $38.6 million.

During 2014, the Company identified and recorded adjustments to correct for certain errors in foreign currency translation and transactions in prior periods. These adjustments resulted in an increase to other operating expenses of $5.0 million.

The Company does not consider these adjustments to be material, individually or in the aggregate, to either the current year or any previously issued consolidated financial statements.

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.

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, 2014 and 2013, the fair value of such investments totaled $120.7 million and $124.0 million, respectively. See Note 2 Statutory Restrictions on Investments and Stockholders' Equity 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 15 Fair Value Measurements for additional discussion of the determination of fair value. Interest income, as well as the related amortization of premium and accretion of discount, on debt securities is recognized under the effective yield method and included in the accompanying consolidated statements of income in net investment income. Realized gains and losses on sales of debt and equity securities are determined on a first-in, first-out basis.

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The Company evaluates its debt and equity securities with unrealized losses on a quarterly basis for potential other-than-temporary impairments in value.

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, 2014, 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, 2014, 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, 2014 in estimating the cash flows expected to be collected for these securities.

	Weighted average		Range
Prepayment speeds	10.0	%	8.8%-14.0%
Default rates	2.5	%	1.8%-3.7 %
Loss severity	18.7	%	3.6%-28.5%

As a result of the Company's security-level review, the Company recognized $1.7 million and $3.6 million of other-than-temporary impairments considered to be credit related on its non-agency mortgage-backed securities in earnings for the years ended December 31, 2014 and 2012, respectively. The Company did not recognize any other-than-temporary impairments considered to be credit related in 2013. It is possible that the Company could recognize additional other-than-temporary impairment losses on securities it owns at December 31, 2014 if future events or information cause it to determine that a decline in fair value is other-than-temporary.

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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, 2014, 2013, and 2012.

	December 31,		
	2014	2013	2012
	(in thousands)		
Cumulative credit loss on debt securities held at beginning of period	$16,478	$16,478	$33,656
Addition to credit loss for which an other-than-temporary impairment was previously recognized	1,701	—	3,564
Accumulated losses on securities that matured or were sold during the year	—	—	(20,742)
Cumulative credit loss on debt securities held at end of period	$18,179	$16,478	$16,478

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 fair 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. The Company did not record other-than-temporary impairment losses related to its equity securities for the years ended December 31, 2014, 2013 and 2012.

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. The carrying value of investments in affiliates is written down, or impaired, to fair value when a decline in value is considered to be other-than-temporary. In making the determination as to whether an individual investment in an 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 the Company), 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. The Company recognized impairment losses on equity method investments in affiliates of $22.5 million, 7.8 million and $7.1 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Investments in real estate are classified as held for sale and carried at the lower of cost or fair value less estimated selling costs. An impairment loss is recognized when the carrying value exceeds the estimated undiscounted future cash flows from the investment.

Notes receivable are carried at cost less reserves for losses. 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.

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. Management uses estimated future cash flows (undiscounted and excluding interest) to measure the recoverability of property and equipment whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. If the undiscounted cash flow analysis indicates that the carrying amount is not recoverable, an impairment loss is recorded for the excess of the carrying amount over its fair value.

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 at December 31, 2014 included title plants of $514.6 million and capitalized real estate data of $16.0 million, and at December 31, 2013 included title plants of $523.1 million and capitalized real estate data of $0.8 million. 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 carried at cost, less amortization. Capitalized real estate data is amortized using the straight-line method over estimated useful lives of 3 to 15 years.

Business Combinations

Amounts paid for acquisitions are allocated to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair value at the date of acquisition. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Acquisition-related costs are expensed in the periods in which the costs are incurred. The results of operations of acquired businesses are included in the consolidated financial statements from the date of acquisition.

Goodwill Impairment

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.

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. 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 goodwill impairment losses that could be material.

The Company elected to perform qualitative assessments for 2014 and 2013, the results of which supported the conclusion that the fair values of the Company’s reporting units were not more likely than not less than their carrying amounts and, therefore, a quantitative assessment was not considered necessary. For 2012, the Company performed a quantitative assessment and determined that the fair values of its reporting units exceeded their carrying amounts and, therefore, no additional analysis was required. As a result of these assessments, the Company did not record any goodwill impairment losses for 2014, 2013 or 2012.

Other intangible assets

The Company's intangible assets consist of noncompete agreements, customer relationships, 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.

Management uses estimated future cash flows (undiscounted and excluding interest) to measure the recoverability of intangible assets with finite lives, whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. If the undiscounted cash flow analysis indicates that the carrying amount is not recoverable, an impairment loss is recorded for the excess of the carrying amount over its fair value.

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.

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, 70% to 80% 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 $98.7 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 adjusted for estimated future increases in costs.

Contingent litigation and regulatory liabilities

Amounts related to contingent litigation and regulatory liabilities are accrued if it is probable that a liability has been incurred and an amount is reasonably estimable. The Company records legal fees in other operating expense in the period incurred.

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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.

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.

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.

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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 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 the 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 annually 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 net 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 consolidated statements of income. 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 in the period ended December 31, 2014. 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, 2014. At December 31, 2014, a reinsurance receivable of $25.0 million, which related to a large commercial title claim, was included in the Company's consolidated balance sheets in accounts and accrued income receivable. The Company collected $23.2 million of the receivable in February 2015 and expects to collect the remaining $1.8 million during the remainder of 2015. No reinsurance receivable was included in the consolidated balance sheets at 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 $6.3 billion and $4.7 billion at December 31, 2014 and 2013, respectively, of which $2.2 billion and $1.6 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 temporarily invested in cash and cash equivalents and debt and equity securities, with offsetting liabilities included in deposits in the accompanying consolidated balance sheets. The remaining escrow deposits were held at third-party financial institutions.

Trust assets held or managed by First American Trust, FSB totaled $3.0 billion at December 31, 2014 and 2013. 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 and, as a result, 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 each 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 $2.4 billion and $1.4 billion at December 31, 2014 and 2013,

respectively. The like-kind exchange deposits are 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 July 2013, the Financial Accounting Standards Board ("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. The adoption of the guidance had no impact on the Company's consolidated financial statements.

Pending Accounting Pronouncements:

In June 2014, the FASB issued updated guidance intended to eliminate the diversity in practice regarding share-based payment awards that include terms which provide for a performance target that affects vesting being achieved after the requisite service period. The new standard requires that a performance target which affects vesting and could be achieved after the requisite service period be treated as a performance condition that affects vesting and should not be reflected in estimating the grant-date fair value. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. The Company expects the adoption of this guidance to have no impact on its consolidated financial statements.

In May 2014, the FASB issued updated guidance for recognizing revenue from contracts with customers to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within and across industries, and across capital markets. The new revenue standard contains principles that an entity will apply to determine the measurement of revenue and the timing of recognition. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. Revenue from insurance contracts is not within the scope of this guidance. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption prohibited. The Company is currently assessing the impact of the new guidance on its consolidated financial statements.

In April 2014, the FASB issued updated guidance which changes the criteria for determining which disposals are required to be presented as discontinued operations and modifies related disclosure requirements. The updated guidance is effective for interim and annual reporting periods beginning after December 31, 2014, with early adoption permitted. The Company expects the adoption of this guidance to have no impact on its consolidated financial statements.

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

Investments totaling $133.0 million and $128.9 million were on deposit with state treasurers in accordance with statutory requirements for the protection of policyholders at December 31, 2014 and 2013, 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, 2014, under such regulations, the maximum amount of dividends, loans and advances available to the Company from its insurance subsidiaries in 2015, without prior approval from applicable regulators, was $570.0 million.

The Company's principal title insurance subsidiary, First American Title Insurance Company ("FATICO"), maintained total statutory capital and surplus of $971.3 million and $996.0 million as of December 31, 2014 and 2013, respectively. Statutory net income for the years ended December 31, 2014, 2013 and 2012 was $393.1 million, $199.1 million and $301.9 million, respectively. FATICO was in compliance with the minimum statutory capital and surplus requirements as of December 31, 2014.

FATICO, which was previously domiciled in the state of California, redomesticated to Nebraska effective July 1, 2014. FATICO's statutory-based financial statements were prepared in accordance with accounting practices prescribed or permitted by the Nebraska Department of Insurance for the year ended December 31, 2014 and by the California Department of Insurance for the year ended December 31, 2013. 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 states of Nebraska and California. Both states have adopted certain prescribed accounting practices that differ from those found in the NAIC SAP. Specifically, the timing of amounts released from the statutory premium reserve under both Nebraska's and California's required practice differs from NAIC SAP resulting in total statutory capital and surplus that was lower by $11.7 million and $193.8 million at December 31, 2014 and 2013, respectively, than if reported in accordance with NAIC SAP. Additionally, for the year ended December 31, 2014, the state of Nebraska granted a permitted accounting practice to FATICO that differs from Nebraska's prescribed accounting practices; specifically, the determination to not

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record a bulk reserve within the known claims reserve resulting in total statutory capital and surplus that was higher by $8.2 million at December 31, 2014 than if reported in accordance with Nebraska's required practice.

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 and assets acquired in connection with claim settlements other than real estate or mortgage loans secured by real estate), reporting of bonds at amortized cost, amortization of goodwill, deferral of premiums received as statutory premium reserve, supplemental reserve (if applicable) and exclusion of the incurred but not reported claims reserve.

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:

	Amortized	Gross unrealized		Estimated
(in thousands)	cost	gains	losses	fair value
December 31, 2014				
U.S. Treasury bonds	$64,195	$968	$(181)	$64,982
Municipal bonds	577,703	10,981	(1,007)	587,677
Foreign bonds	194,749	2,009	(8)	196,750
Governmental agency bonds	198,330	1,562	(2,018)	197,874
Governmental agency mortgage-backed securities	1,812,766	8,491	(9,095)	1,812,162
Non-agency mortgage-backed securities	15,949	1,306	(717)	16,538
Corporate debt securities	568,774	8,759	(3,264)	574,269
	$3,432,466	$34,076	$(16,290)	$3,450,252
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	19,658	1,167	(1,803)	19,022
Corporate debt securities	355,893	7,279	(3,088)	360,084
	$2,848,594	$18,371	$(47,148)	$2,819,817

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, 2014				
Preferred stocks	$14,976	$596	$(47)	$15,525
Common stocks	378,938	16,680	(8,731)	386,887
	$393,914	$17,276	$(8,778)	$402,412
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

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The Company had the following unrealized gains (losses) as of December 31, 2014, 2013 and 2012:

	December 31,		
	2014	2013	2012
	(in thousands)		
Debt securities for which an other-than-temporary impairment has been recognized	$604	$(625)	$(4,435)
Debt securities—all other	17,182	(28,152)	43,041
Equity securities	8,498	23,944	6,750
	$26,284	$(4,833)	$45,356

Sales of debt and equity securities resulted in realized gains of $34.1 million, $17.2 million and $70.1 million and realized losses of $9.1 million, $15.5 million and $0.3 million for the years ended December 31, 2014, 2013 and 2012, respectively.

The Company had the following gross unrealized losses as of December 31, 2014 and 2013:

	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, 2014						
Debt securities:						
U.S. Treasury bonds	$8,122	$(27)	$15,124	$(154)	$23,246	$(181)
Municipal bonds	137,755	(689)	19,625	(318)	157,380	(1,007)
Foreign bonds	6,215	(8)	—	—	6,215	(8)
Governmental agency bonds	27,479	(88)	127,936	(1,930)	155,415	(2,018)
Governmental agency mortgage-backed securities	383,717	(1,612)	300,918	(7,483)	684,635	(9,095)
Non-agency mortgage-backed securities	—	—	5,611	(717)	5,611	(717)
Corporate debt securities	198,079	(3,151)	9,683	(113)	207,762	(3,264)
Total debt securities	761,367	(5,575)	478,897	(10,715)	1,240,264	(16,290)
Equity securities	208,922	(8,587)	2,340	(191)	211,262	(8,778)
Total	$970,289	$(14,162)	$481,237	$(10,906)	$1,451,526	$(25,068)
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)
Non-agency mortgage-backed securities	—	—	12,086	(1,803)	12,086	(1,803)
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)				