

# First American Financial Corporation

KBW Mortgage Finance Conference

June 4, 2013



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# Safe Harbor Statement

Certain statements made in this presentation and the related management commentary and responses to investor questions, including but not limited to those related to improvement in the residential housing market including, improving sales activity and prices, interest rate and affordability expectations, housing inventory expectations, anticipated foreclosure activity, selling season outlook, refinance outlook and purchase market outlook; continued strength in commercial business; title order and mortgage volume forecasts; impact of changing interest rates; future margins and profitability; impact of home price appreciation; expense management; title claims trends and loss provision expectations; enhanced earnings power; market share growth prospects – organic and through acquisitions, including in key geographic markets and in commercial; further industry consolidation; agent splits; the return of capital to shareholders; and the “pure play” nature of an investment in the company, 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 continue,” “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; regulation of title insurance rates; reform of government-sponsored mortgage enterprises; limitations on access to public records and other data; product migration; changes in relationships with large mortgage lenders; 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; systems 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; and other factors described in the company’s quarterly report on Form 10-Q for the quarter ended March 31, 2013, as filed with the Securities and Exchange Commission. 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.

# Use of Non-GAAP Financial Measures

This slide presentation contains certain financial measures that are not presented in accordance with generally accepted accounting principles (GAAP), including an adjusted pretax title margin, which is adjusted to exclude net realized investment gains or losses, reserve adjustments, and the Bank of America settlement. Although these exclusions represent actual gains, losses or expenses to the Company, they may mask the periodic income and financial and operating trends associated with the Company's business.

The Company is presenting these non-GAAP financial measures because they provide the Company's management and investors with additional insight into the operational performance of the Company relative to earlier periods and relative to the Company's competitors. The Company does not intend for these non-GAAP financial measures to be a substitute for any GAAP financial information. In the slide presentation these non-GAAP financial measures have been presented with, and reconciled to, the most directly comparable GAAP financial measures. Investors should use these non-GAAP financial measures only in conjunction with the comparable GAAP financial measures.

# Company Overview

## Leading Market Positions

- 124 years of market leadership
- U.S. and International markets
- Residential and Commercial title insurance

## Strong Competitive Position

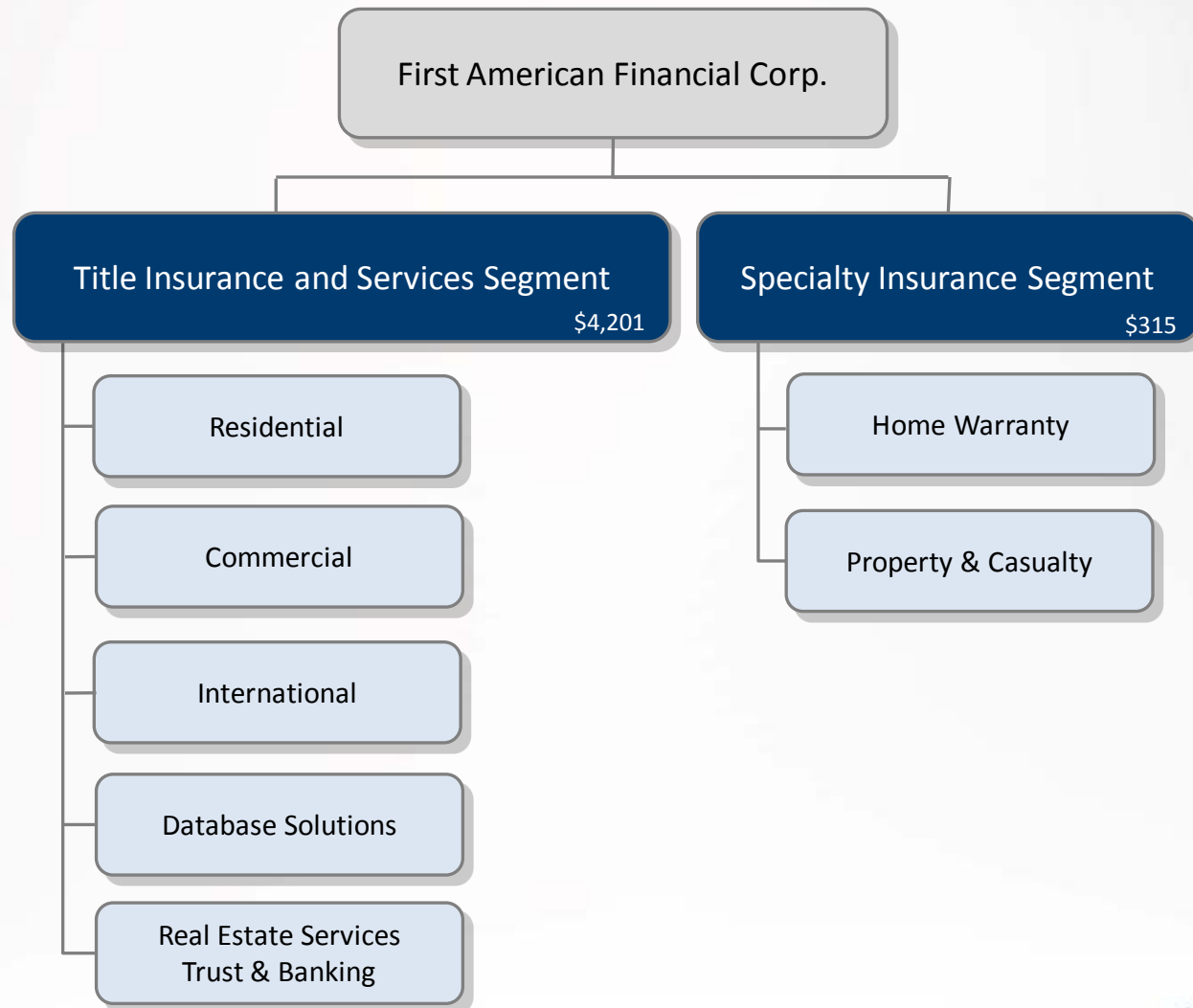
- 26% market share - one national brand
- Extensive distribution network: direct and agent
- Industry-leading technology infrastructure and title plant information

## Strong Financial Position

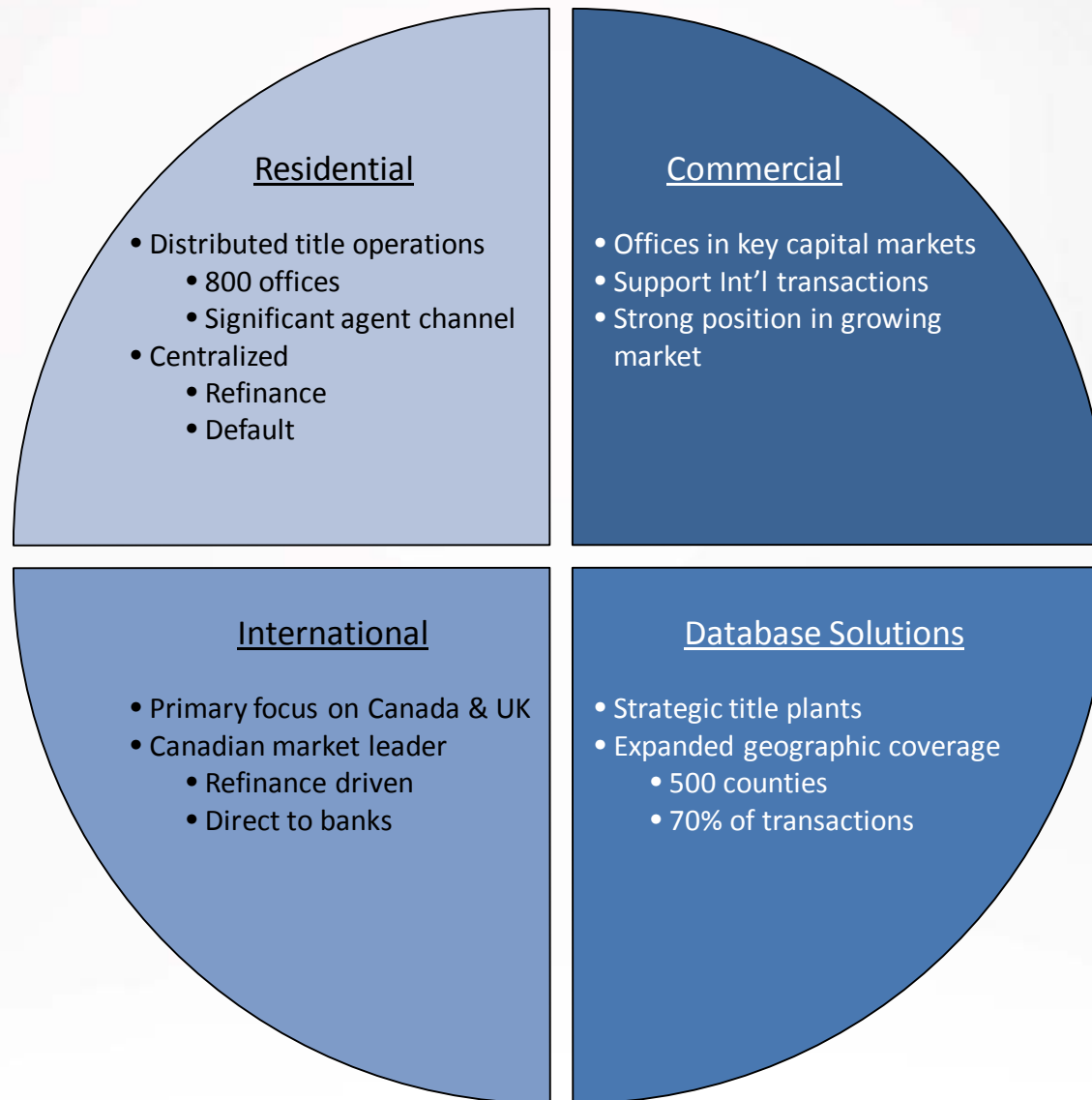
- \$4.5 billion of annual revenue
- Conservative balance sheet and investment portfolio
- Low financial leverage

# Organizational Structure

As of December 31, 2012 (\$ millions)



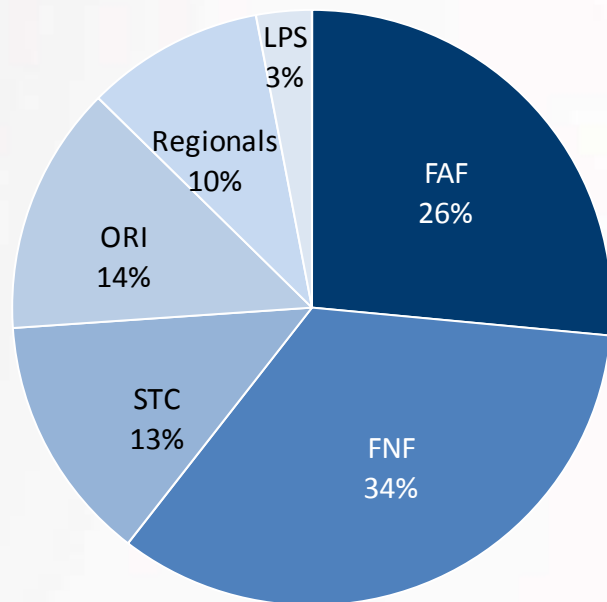
# Title Insurance & Services Segment



# Leading Market Position

- Target growth in key markets

U.S. Title Market Share



<u>FAF Market Share</u>	
California	22.9%
Texas	22.3%
Florida	21.0%
New York	17.1%
Pennsylvania	36.0%
Arizona	36.1%
New Jersey	23.3%
Ohio	35.9%
Virginia	22.0%
Illinois	20.0%
<b>Total top 10 states</b>	<b>23.9%</b>



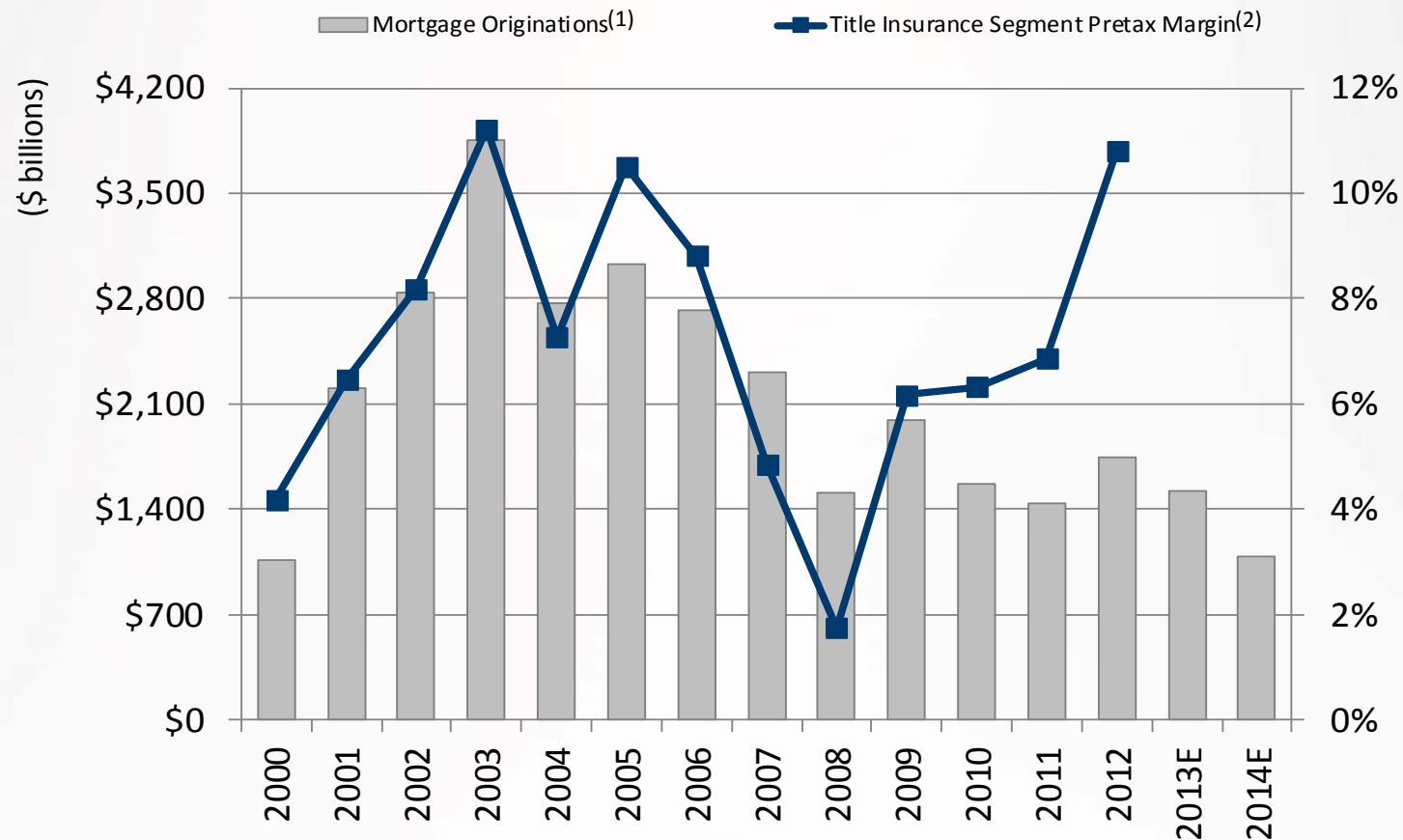
# Current Market Environment

- U.S. residential housing market gradually improving
  - Sales activity and prices improving
  - Selling season continues strong through May
  - Interest rates and affordability favorable
  - Inventory shortage in many markets
  - Foreclosure activity and inventory beginning to decline
- Continued strength in commercial business
- U.S. macro and global uncertainties remain





# Adjusted Title Insurance Margins



(1) Source: Mortgage Bankers Association.

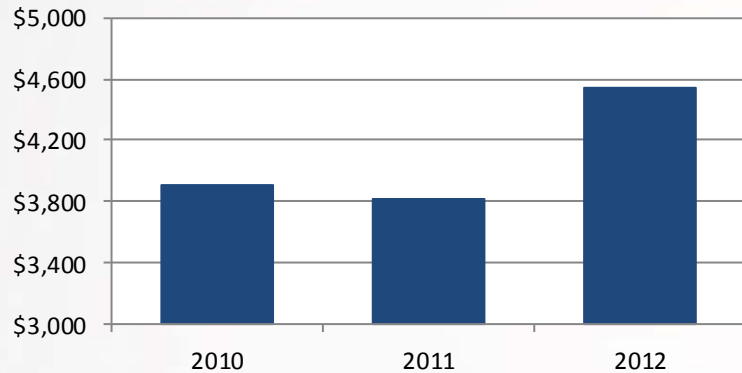
(2) For 2005-2012 excludes net realized investment gains (losses), reserve strengthening for 2006-2008, and reserve strengthening in Canada and Bank America settlement for 2011. GAAP basis for 2000-2004; see reconciliation in the Appendix. Source: Securities and Exchange Commission filings.



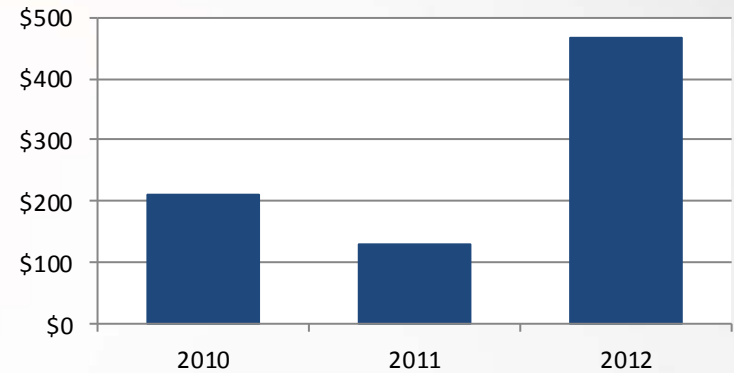
# Annual Financial Results

As of December 31, 2012 (\$ millions)

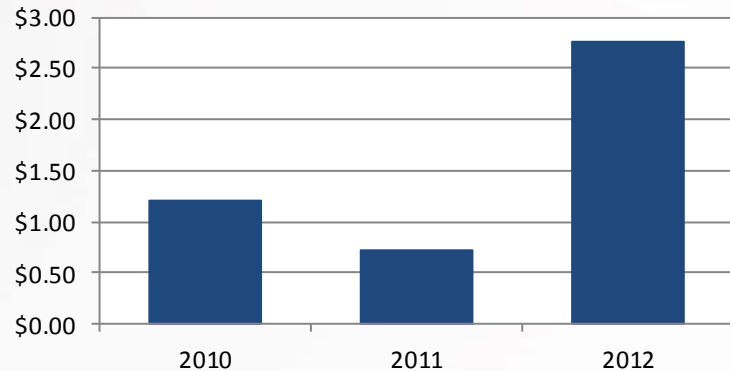
## Gross Revenues



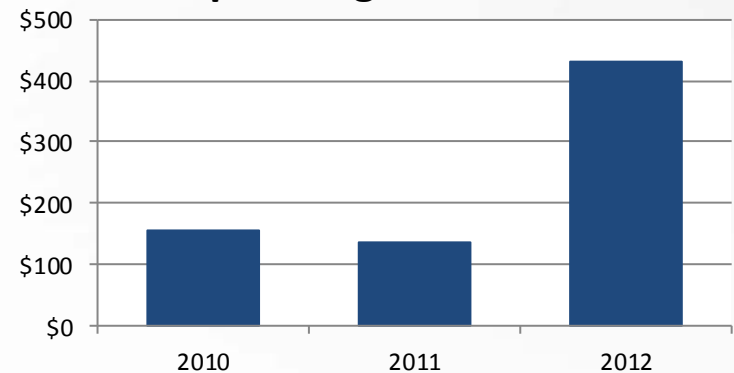
## Pretax Income



## EPS



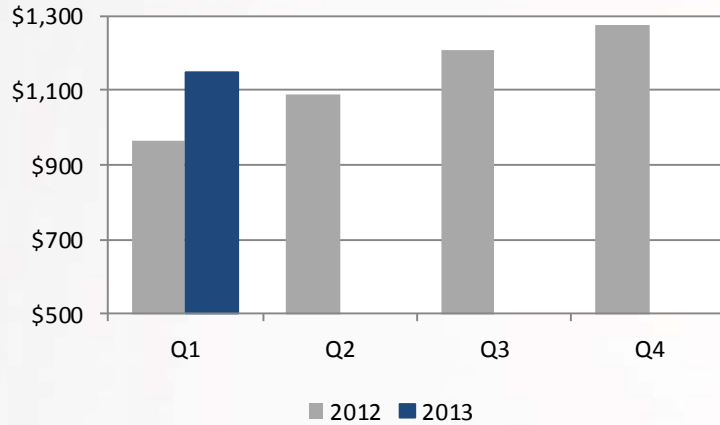
## Operating Cash Flow



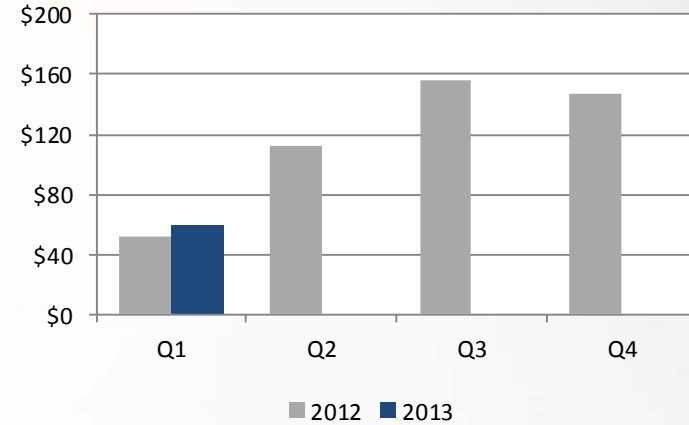
# Quarterly Financial Results

As of March 31, 2013 (\$ millions)

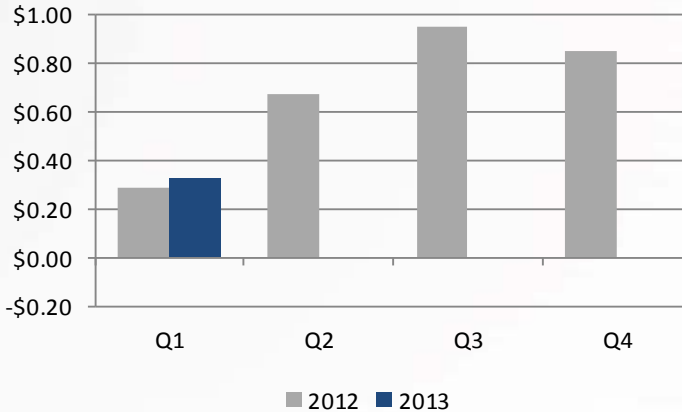
## Gross Revenues



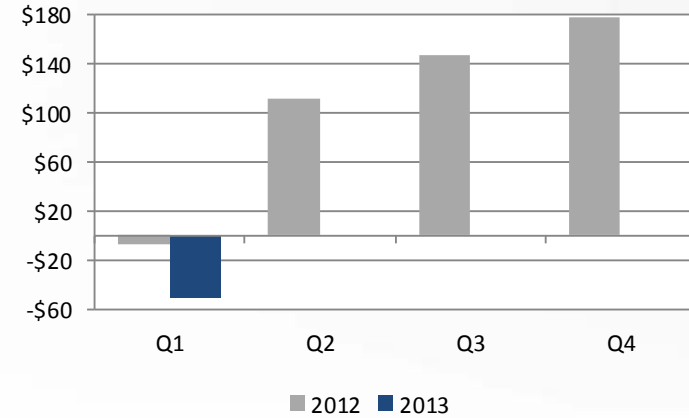
## Pretax Income



## Earnings per share



## Operating Cash Flow



# Balance Sheet

As of March 31, 2013 (\$ millions)

## Assets

Cash & equivalents	\$815
Investments	\$3,094
Other assets	\$1,375
Goodwill & intangibles	898
Total assets	<u>\$6,182</u>

## Liabilities & equity

Demand Deposits	\$1,560
Other Liabilities	\$948
Reserves	977
Debt	317
Equity	2,380
Total liabilities & equity	<u>\$6,182</u>

## Return on Equity

TTM Net income	\$307
Average Equity	\$2,238
ROE	13.7%
Debt-to-capital	11.8%
Book value per share	\$22.01
Tangible equity	\$1,482
Statutory surplus	\$1,017



# Investment Considerations

- “Pure play” in title and mortgage markets
- Strong competitive position in title and settlement services
  - Pursuing growth opportunities
- Structural cost reductions have enhanced earnings power
  - Improved earnings and cash flow
  - Further margin improvement expected as market normalizes
- Strong financial position
- Meaningful opportunity to return capital to shareholders
  - Recent dividend increases

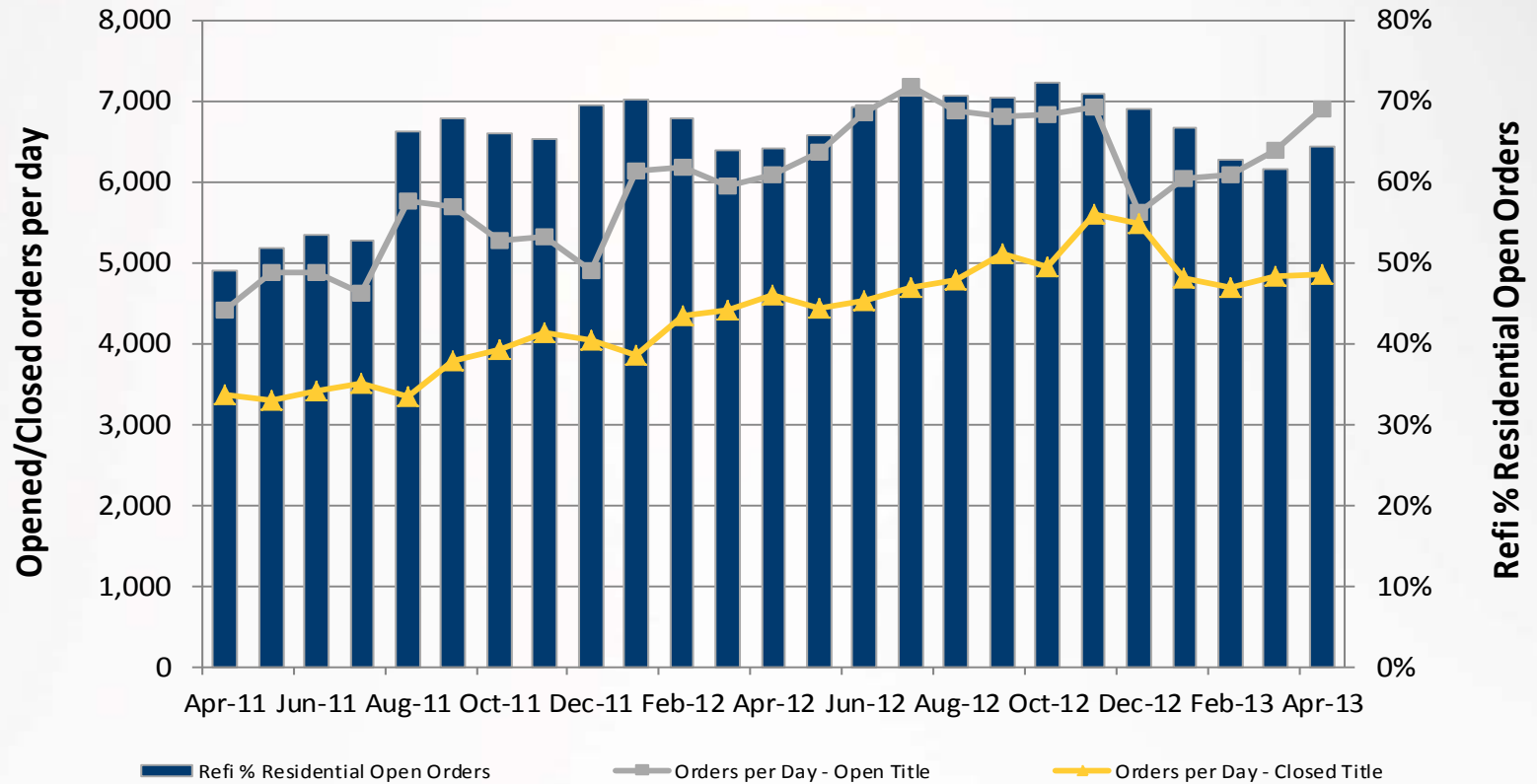


# Appendix

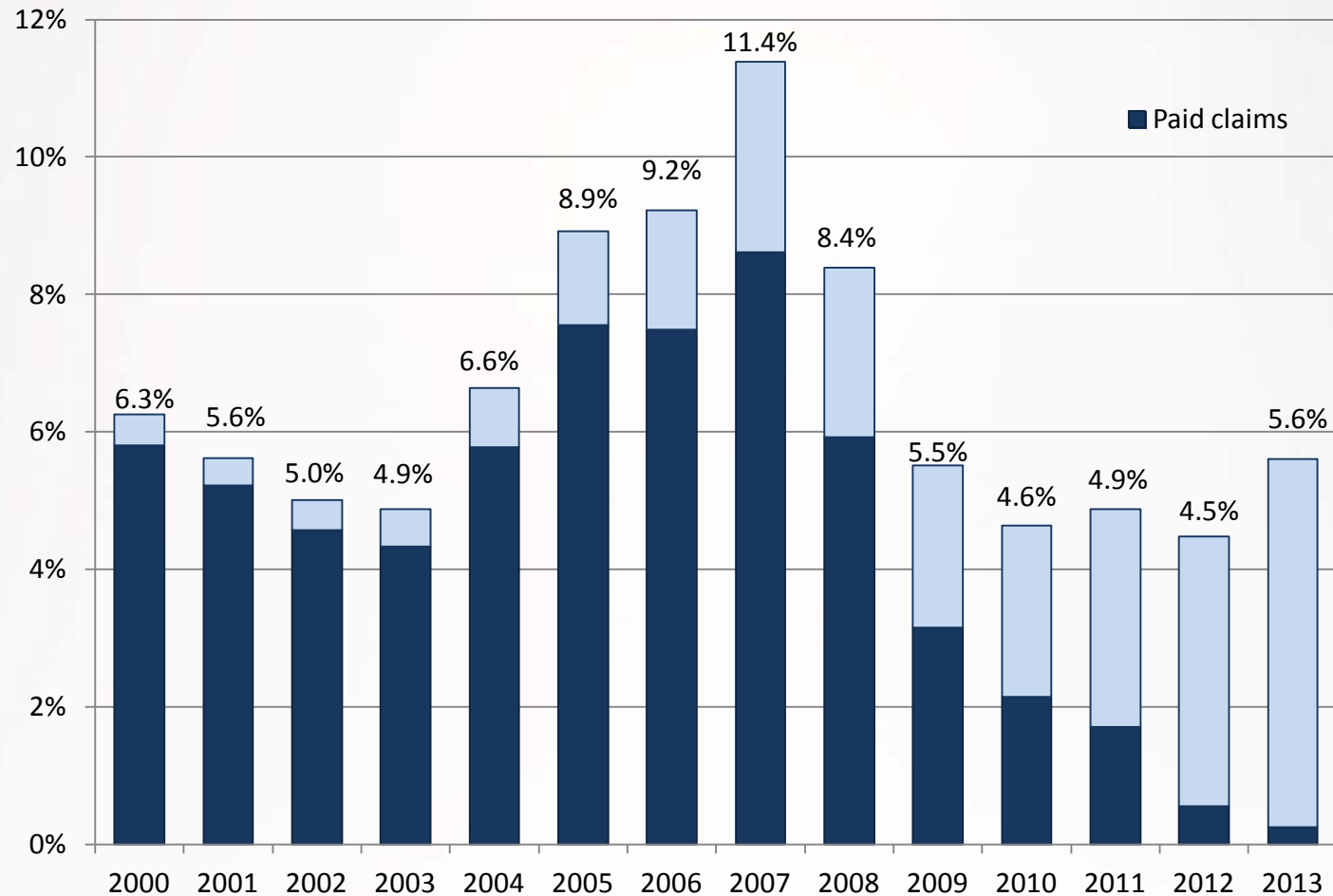


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# Title Order Count Trends



# Ultimate Loss Ratios by Policy Year



Note: Ultimate loss ratios are calculated as a percentage of title premiums and escrow fees for a given policy year as of 3/31/13. Excludes \$32.2 million Bank of America settlement.





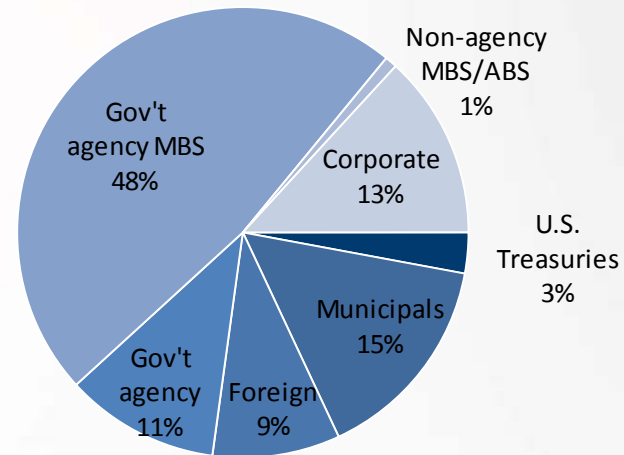
# Consolidated Investment Portfolio

As of March 31, 2013 (\$ millions)

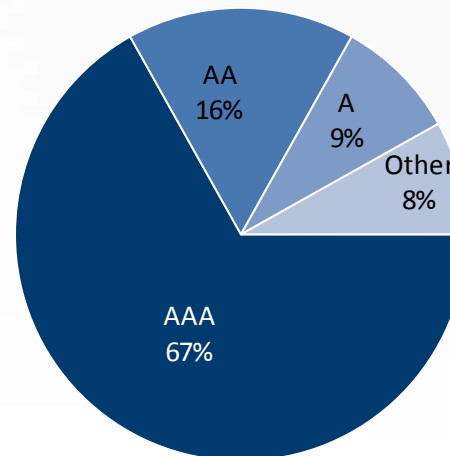
## First American Investment Portfolio

Cash & Deposits	881
Debt Securities	2,599
Equity Securities	237
Other LT Investments	191
<b>Total Cash + Investments</b>	<b>3,908</b>
Demand Deposits	1,560
<b>Net Investment Portfolio</b>	<b>2,348</b>

## Fixed income by asset class



## Fixed income by credit rating



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# Title Margin Reconciliation

<b>First American</b>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
GAAP total revenues	\$ 6,353,998	\$ 5,753,072	\$ 4,072,217	\$ 3,768,191	\$ 3,613,590	\$ 3,539,127	\$ 4,200,520
- Net realized investment gains (losses)	(2,364)	(77,091)	(84,515)	(18,535)	782	(7,163)	24,238
Adjusted total revenues	<u>\$ 6,356,362</u>	<u>\$ 5,830,163</u>	<u>\$ 4,156,732</u>	<u>\$ 3,749,656</u>	<u>\$ 3,612,808</u>	<u>\$ 3,546,290</u>	<u>\$ 4,176,282</u>
GAAP pretax income (loss)	\$ 402,796	\$ (159,785)	\$ (89,898)	\$ 215,072	\$ 229,525	\$ 158,642	\$ 473,681
- Net realized investment gains (losses)	(2,364)	(77,091)	(84,515)	(18,535)	782	(7,163)	24,238
+ Reserve adjustment	155,000	365,900	78,010	-	-	77,500	-
Adjusted pretax income (loss)	<u>\$ 560,160</u>	<u>\$ 283,206</u>	<u>\$ 72,627</u>	<u>\$ 233,607</u>	<u>\$ 228,743</u>	<u>\$ 243,305</u>	<u>\$ 512,043</u>
GAAP pretax margin	6.3%	-2.8%	-2.2%	5.7%	6.4%	4.5%	11.3%
Adjusted pretax margin	8.8%	4.9%	1.7%	6.2%	6.3%	6.9%	10.8%

